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# Volume 8

## The Direct Loan Program

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# Introduction to the Direct Loan Program



## CHAPTER 1

### OVERVIEW OF THE DIRECT LOAN PROGRAM

The William D. Ford Federal Direct Loan Program (Direct Loan Program) was authorized under Title IV of the Higher Education Act of 1965, as amended (HEA) when the Student Loan Reform Act of 1993 was enacted. It began operation in the 1994–1995 award year. A major source of federal student financial assistance, the Direct Loan Program provides loans to eligible borrowers to cover postsecondary education costs. The Direct Loan Program uses funds provided by the Federal government, and makes loans available directly through participating schools.

#### *Types of Direct Loans*

The following types of loans are available through the Direct Loan Program:

*Federal Direct Stafford/Ford Loans (Direct Subsidized Loans)* are made to undergraduate students who demonstrate financial need. Borrowers are not charged interest while they are enrolled in school at least half time and during grace periods and deferment periods. When borrowers cease to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins. The repayment period for a Direct Subsidized Loan begins and interest begins to accrue the day after the grace period ends.

The Consolidated Appropriations Act of 2012 temporarily eliminates the interest subsidy on Direct Subsidized Loans during a borrower's six-month grace period. This change is effective for disbursements of Direct Subsidized Loans that are first disbursed after July 1, 2012, and on or before June 30, 2014.

*Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans)* are made to students (undergraduate, graduate, and professional). They do not require students to demonstrate financial need. Borrowers are responsible for the interest that accrues during all periods over the life of a Direct Unsubsidized Loan. During periods of enrollment and the grace period, borrowers may choose to pay the interest or have it capitalized. When a borrower ceases to be enrolled at an eligible school on at least a half-time basis, a six-month grace period begins. The repayment period for a Direct Unsubsidized Loan begins the day after the grace period ends.

#### **Direct Loan Program**

Title IV, Part D of the HEA  
34 CFR 685

Direct Subsidized Loans are no longer being made to graduate and professional students.

#### **Rules on When Interest is Charged**

No interest is charged on Direct Subsidized Loans while borrowers are enrolled in school at least half-time, during deferment periods, and during certain other periods of repayment under the Income-Based Repayment (IBR) and Pay as You Earn Repayment Plan.

No interest is charged during the grace period on Direct Subsidized Loan first disbursed (paid out) before July 1, 2012, or after June 30, 2014.

Interest is charged during the grace period on Direct Subsidized Loans first disbursed (paid out) July 1, 2012, through June 30, 2014.

Cite  
PL 112-74  
HEA 428(a)(3)(A)(i)(I)

Federal Direct PLUS Loans (**Direct PLUS Loans**) are made to graduate and professional students (Grad Direct PLUS Loans) or parents (and in some cases stepparents of dependent undergraduate students (Parent Direct PLUS Loans). Interest on a Direct PLUS Loan begins to accrue when the loan is first disbursed. Repayment begins when the loan is fully disbursed. However, all Direct PLUS borrowers may defer repayment while the borrower (or student, in the case of Parent Direct PLUS Loans) is enrolled at least half time and for an additional six months after a student ceases to be enrolled at least half time. Grad Direct PLUS Loans will receive these deferments automatically. Parent Direct PLUS Loans will only be granted this deferment upon the request of the parent borrower.

Federal Direct Consolidation Loans (**Direct Consolidation Loans**) allow borrowers to combine one or more federal education loans into one new Direct Loan requiring only one monthly payment. All Direct Loans (Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans) can be consolidated. Even if a borrower consolidates more than type of loan, the borrower still has only one Direct Consolidation Loan and makes only one monthly payment, though the borrower and school will see separate entries for the separate components of the Direct Consolidation in most systems, e.g., NSLDS.

### *Direct PLUS Loans*

All students who receive PLUS funds must complete a FAFSA, whether they are graduate student PLUS borrowers or dependent undergraduates who will receive the funds via their parents.

Before originating a PLUS Loan application for a graduate or professional student, a school must determine her eligibility for a Stafford loan. If the student is eligible for a Stafford loan but has not requested the maximum amount she can receive, the school must notify her of that and give her the opportunity to request the maximum amount. The school must also provide the student with a comparison of:

- ♦ the maximum interest rate for Stafford and PLUS Loans;
- ♦ the periods when interest accrues on Stafford and PLUS Loans; and
- ♦ when Stafford and PLUS Loans enter repayment.

A graduate or professional student is not required to accept a Stafford loan as a condition for receiving a PLUS Loan, nor can a school require that.

Unless the borrower has received a FFEL or Direct PLUS Loan before, a school must conduct initial loan counseling prior to the first disbursement of a graduate/professional PLUS Loan. Loan counseling requirements do not apply to parent PLUS borrowers.

#### **Determination of Stafford eligibility required**

34 CFR 685.301(a)



Parents and graduate/professional students apply for a PLUS Loan by completing the PLUS application and master promissory note. All PLUS borrowers must receive the Borrowers' Rights and Responsibilities Statement with the loan application.

At U.S. domestic schools, a parent may obtain for a dependent student additional PLUS Loans based on the original MPN for up to 10 years after the date the parent first signed it, as discussed in the previous section on the multiyear use of the MPN. A separate PLUS MPN is required for each dependent student or if both parents want to borrow individually on behalf of the same student. A new PLUS MPN would be required under the conditions discussed in the section on when a new MPN is required. A graduate or professional student PLUS borrower may also obtain additional loans under the original MPN for up to 10 years after the date it was signed.

Because a parent or graduate/professional student may borrow up to the student's cost of attendance minus other estimated financial assistance for the loan period, it is important that the borrower specify how much he wants to borrow. A PLUS Loan may not be made for more than the borrower requests.

Your school must collect this information before originating the PLUS Loan and may use various means such as a borrower response section on your financial aid award letter, a separate PLUS form, documented telephone or electronic requests, or other means.

You must establish and document how a PLUS borrower's loan amount request will be collected. You also must maintain a record of any requests (written, electronic, or by phone) from the borrower for any adjustment to the loan amount.

The Direct PLUS Loan Request feature on the StudentLoans.gov website allows both parents and graduate/professional students, to request a PLUS Loan and initiate a credit check. It can take the place of a school-based process. Borrowers can request the amount that they wish to borrow or choose to have the school determine the maximum amount they are eligible to receive. This process is optional; schools can choose not to allow it or to allow it for parent or student borrowers only. But a school using this process will meet the active confirmation requirement. See the electronic announcement dated April 23, 2010, on the IFAP website for more information.

Before originating a parent PLUS Loan, you must determine the FSA eligibility of the dependent student for whom the parent is borrowing, and you must obtain the student's complete financial aid history. A parent may not take out a PLUS Loan when the student is ineligible for FSA funds or when the parent herself is ineligible. Also, when originating a parent PLUS Loan, you must certify the student's enrollment status and anticipated completion/graduation date.

### **When a Grad Plus borrower is also a parent PLUS borrower**

If a graduate or professional student PLUS borrower is also a parent who is obtaining a PLUS Loan for one or more dependent students, he or she must sign one MPN for herself and a separate MPN for each dependent student.

### **Increased Unsubsidized Stafford for independent students and dependent students whose parent can't get PLUS**

If at least one of a dependent student's parents has not been able to obtain a PLUS Loan, the student may be eligible for higher Direct Unsubsidized Stafford Loan borrowing limits. See *The Federal Student Aid Handbook, Volume 3*.

### Adverse Credit History

When determining whether a borrower is ineligible for a PLUS Loan based on an adverse credit history, the Department obtains a credit report on the borrower from at least one national credit bureau. Adverse credit is defined in the regulations as the applicant being 90 days or more delinquent on a debt or having been subject in the last five years to a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment or write-off of an FSA debt. The absence of any credit history is not considered adverse credit.

Your school must confirm the student's dependency status when determining whether a parent is eligible to borrow under the Direct PLUS Program or the dependent student is eligible for additional Direct Unsubsidized Loan limits.

### Adverse credit history and use of endorser

To qualify for a PLUS Loan, a person must not have an adverse credit history, but if he has such a history, he may still receive a PLUS Loan by using an endorser who does not have an adverse credit history. In these cases, a separate endorser addendum is required for each PLUS Loan. Any loan that requires an endorser must be made under a new PLUS MPN with a new endorser addendum because the endorser is liable only for the specific loan or loans she agrees to endorse. The addendum includes the requested loan amount; if the parent borrower wants to increase that amount, the endorser must approve it, and it requires a new MPN and endorser addendum.

## THE PROMISSORY NOTE

To receive a Direct Loan, a student (or parent) must complete a Master Promissory Note (MPN). In the traditional paper process, the MPN will be printed by the school and the borrower signs a copy and returns it to COD or the school, as appropriate. The borrower gets a copy, and the school may keep a third copy on file if it chooses to do so. If the school receives the signed MPN, the school forwards the MPN to MPN processing.

Schools also have the option of participating in the electronic Master Promissory Note process (e-MPN). Students (or parents, if applicable) interested in an e-MPN should go to the Department's e-MPN Web site (<https://studentloans.gov/myDirectLoan/index.action>) where they can complete, electronically sign (with their federal student aid PIN) and print a copy of the note. They can also return later to view an already executed e-MPN. Borrowers should only sign an e-MPN if the school they will be attending participates in the electronic Master Promissory Note process. Access to the StudentLoans.gov website requires a PIN. Borrowers can obtain Federal PINs by completing the Federal PIN process at <http://pin.ed.gov>.

A student attending a school that participates in the e-MPN process has the option of requesting that a paper MPN be created and printed for his or her signature. If a student requests a paper MPN, the school **must** provide one. (See chapter 2 for more on the MPN Process.)

## THE DISCLOSURE STATEMENT

The law requires a disclosure statement, providing loan-specific information to be sent to all borrowers by the lender. Before or at the time of the first disbursement of the proceeds of a Direct Loan, COD will send a disclosure statement that provides borrowers with information about the –

- ♦ types of loans,
- ♦ anticipated loan disbursement amounts,
- ♦ loan fee rates,
- ♦ the amount of the borrower's loan fee,
- ♦ anticipated disbursement dates, and
- ♦ anticipated net disbursements.

In general, COD prints the disclosure statement and sends it to a borrower at his or her permanent address before the first anticipated disbursement date reported on the loan origination record for each loan made by the borrower. Borrowers can opt to receive electronic correspondence. If a borrower opts for electronic correspondence, COD does not send an electronic copy of his/her disclosure statement, rather COD notifies the borrower via an email that his electronic disclosure statement is available for viewing or downloading on StudentLoans.gov

Borrowers make the selection at

<https://StudentLoans.gov>.

Even if loan origination records for a student's Direct Subsidized Loan and Direct Unsubsidized Loan arrive in COD on different days, COD sends a single disclosure statement if –

- ♦ both loans have the same first anticipated disbursement date; and
- ♦ both loan origination records were processed before the first anticipated disbursement date for the loans and the disclosure statement for the first disbursement has not been sent.

In addition, a school may also provide disclosure statements. If a school chooses to print disclosure statements, the school must also provide a Plain Language Disclosure (PLD). A school may send a disclosure statement on or before the anticipated disbursement date. It must provide the disclosure statements no later than the date it makes the first disbursement of Direct Loan funds.

### Borrower's Rights and Responsibilities (BRR) Statements

The BRR described is required under the HEA. The BRR provides additional information about the terms and conditions of the loans a borrower receives under the Master Promissory Note (MPN) for Federal Direct Loans. Sample BRRs are available at

<http://www2.ed.gov/offices/OSFAP/DirectLoan/pubs/dlrights.pdf>

### Consumer Information for Borrowers

First-time borrowers must be fully advised on the costs and responsibilities of borrowing.

Accordingly, the law requires that borrowers receive the following information at the following times:

- At the same time as the MPN, a Statement of Borrower's Rights and Responsibilities.
- At or prior to the first disbursement, a disclosure statement with specific information about that borrower's loans is provided electronically by COD.
- For any subsequent loans provided under an existing MPN, a "Plain Language Disclosure (PLD)" developed by the Department.

### Required Disclosure Format

A school that chooses to provide disclosure statements must use the same format and provide the same information on the disclosures provided by COD. You can find in the COD Technical Reference at

[www.fsadownload.ed.gov/docsStudentAidGateway.htm](http://www.fsadownload.ed.gov/docsStudentAidGateway.htm)

on Page II-1-83 through Page II-1-85

and in the attachments on Page VI-7-3 through Page VI-7-18 and Page VI-7-36 through Page VI-7-44.

## The Plain Language Disclosure (PLD)

A PLD supplements the Borrower's Rights and Responsibilities Statement (BRR) that accompanies a borrower's MPN. A PLD is provided to students (and parents borrowing on behalf of students) who attend schools that use the multiyear feature of the MPN. Since borrowers at these schools don't sign a new promissory note for each loan, a PLD is forwarded with each disclosure statement to remind Direct Loan borrowers of their rights and responsibilities.

## SCHOOL RESPONSIBILITIES

A school's responsibilities in the Direct Loan Program begin with meeting and maintaining loan program participation requirements. Operational requirements can include:

- ◆ confirming borrower eligibility;
- ◆ originating Direct Loans;
- ◆ counseling students;
- ◆ requesting Direct Loan cash;
- ◆ disbursing Direct Loan cash;
- ◆ reconciling school-based Direct Loan records with records in ED's Direct Loan database;
- ◆ carrying out administrative and fiscal management functions; and
- ◆ closing out each award year.

## CONFIRMING BORROWER ELIGIBILITY

Before Direct Loan funds may be disbursed, your financial aid office must confirm a borrower's general eligibility for FSA funds and the borrower's general eligibility for a Direct Loan as described in the *Federal Student Aid Handbook, Volume 1*.

A student borrower must also demonstrate financial need to receive any FSA funds except Direct Unsubsidized and Direct PLUS Loans. (See the *Federal Student Aid Handbook, Volume 3* for more information.)

### TIP

While the business office does not usually report changes in enrollment status and borrower information to ED, when it becomes aware of such changes, it must provide them to the school's "Coordinating Official" as described in *Volume 1*, under *Administrative Standards*, so that the school office with the reporting responsibility can be informed.

### Borrower eligibility

34 CFR 685.200

## THE CONFIRMATION PROCESS

### *Borrower confirmation*

A crucial step in multiyear use of the MPN is the confirmation process that takes the place of the previous requirement that the borrower sign a new note for each academic year. Schools must develop and document a confirmation process to ensure that a borrower wants subsequent loans. The confirmation process may be part of the required notices and disclosures that already exist, or it may be separate and supplement them.

For Direct Subsidized and Unsubsidized Loans, a student must accept, either actively or passively (i.e., through notification), the loan amount offered. For Direct PLUS Loans, a borrower (parent or student) must actively accept the loan amount.

**TIP**

**Active confirmation** – a school does not disburse the loan until the borrower accepts the proposed loan type and amount or requests changes to the proposed loan package.

**Passive confirmation** – school does not disburse the loan until the borrower is notified of the proposed loan package. The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

For example, your school's award letter may include proposed loan amounts and types. For active confirmation, the student would be asked to accept the loan amount offered by responding to your school's offer. For passive confirmation, the student would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

### **Establishing a confirmation process**

As long as regulatory requirements and the Department's guidelines are met, schools are free to establish their own confirmation process—perhaps even a process that combines elements of active and passive confirmation. Schools have considerable discretion in setting up these processes, including the timing of confirmation.

For example, confirmation could take place when students apply for aid, when aid is packaged, when loan funds are disbursed, or at some other appropriate time.

See *Volume 5* for a description of the notices a school must provide before disbursing Direct Loans.

The most effective processes will likely vary from school to school, and participants are encouraged to use and test various technologies in this process. Some technologies suggested include the Internet, email, smart card technologies, and voice response.

### **Documenting Confirmation**

Your school must document its confirmation procedures. This description of the process may be kept in paper or electronic format and need not be kept in individual borrower files.

The documentation must be kept indefinitely because it must be submitted to ED, upon request, if a borrower challenges the enforceability of a loan. Schools should include a description of the confirmation process in their student consumer information just as they do for other school policies, such as refunds and academic progress.

### **More information on confirmation processes**

EA 2011-03-08, EA 2011-16-09 and EA 2010-23-04 provide examples of different methods of confirmation. Participants are encouraged to use and test various technologies in this process.

**TIP**

The Department recommends that schools include a description of the confirmation process(es) in their student consumer information just as they do for other school policies, such as refunds and academic progress.

Generally, it is easier to manage confirmation if your school uses one confirmation process for all borrowers. However, in some cases, a school may want to establish more than one confirmation process in order to accommodate existing administrative procedures or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students.

Regardless of the process(es) used, schools must document their confirmation procedures. A school must retain a description of the process(es) in effect for each academic year in which it makes second or subsequent loans under MPNs. The documentation of the process may be kept in paper or electronic format and need not be kept in individual borrower files. The documentation must be kept indefinitely because it must be submitted to ED upon request if a borrower challenges the enforceability of a loan.

We recommend that schools include a description of the confirmation process in their student consumer information and policies and procedures manuals just as they do for other school policies, such as their school refund and satisfactory academic progress policies.

## ORIGINATING DIRECT LOANS

Once your financial aid office determines a student is eligible to receive a Direct Loan at your school, that office (or your school's servicer) will submit award (origination data) and disbursement data to the COD system.

Your school can originate Direct Loan awards as soon as the year's COD system software is active. When your school originates an award, it will submit either *anticipated* or *actual* disbursement data. Note that the disbursement amount, anticipated or actual, must equal the loan amount or the origination will be rejected. A school that is submitting anticipated data will set the Disbursement Release Indicator (**DRI**) to False (False is the default setting). When a school wants to submit actual disbursements, it must set the DRI to True.

Schools can change disbursements from anticipated to actual up to seven days before the disbursement date. Schools have 15 days after disbursing funds to report disbursements as actual. To change anticipated disbursements to actual disbursements, a school first verifies the dates and amounts are correct, and then sets the DRI to *True*.

### Deadline for submitting disbursement records is changing

For disbursements (or adjustments to previously made disbursements) made prior to April 1, 2013, a school had 30 days to submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records, as applicable, after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.

For disbursements (or adjustments to previously made disbursements) made on or after April 1, 2013, a school must submit Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported Federal Pell Grant or Iraq and Afghanistan Service Grant disbursement.



## COUNSELING STUDENTS

The purpose of loan counseling is to help educate borrowers about the terms and conditions of their loans and the importance of repaying their loans and avoiding default. A school must ensure that first-time Direct Subsidized/Unsubsidized and first-time Direct Grad PLUS borrowers have completed entrance counseling before disbursing Direct Loan funds to those borrowers

All Direct Subsidized/Unsubsidized and Grad Direct PLUS borrowers are required to complete exit counseling when they leave school or drop below half-time enrollment.

It is your school's choice to offer counseling through the school, or require students to complete ED's online counseling at the Direct Loan Direct Loan Student site

<https://StudentLoans.gov>.

A school must have a process for ensuring that borrowers have completed ED's online counseling. If your school uses ED's Online counseling, you will receive confirmation that the student has completed counseling through COD.

If your school conducts its own counseling sessions, you may want to order copies of the Entrance and Exit Counseling Guides for Direct Loan Borrowers. These guides include information about the student's options for repayment, including repayment plans and conditions for forbearance, deferment, and cancellation. You can find a discussion of entrance and exit counseling in chapter 6.

### TIP

If counseling is conducted by electronic means, the school must take reasonable steps to ensure that each student borrower receives the counseling materials and participates in and completes the counseling.

In extenuating circumstances, certain borrowers may complete exit counseling via written counseling materials.

See 34 CFR 685.304(9)(2) and 685.304(9)(3) for further explanation.

ED's Entrance and Exit Counseling Guides for Direct Loan Borrowers must be ordered from the U.S. Department of Education via FSA Pubs.

Schools can do this in any one of the following ways:

Web: [www.FSApubs.org](http://www.FSApubs.org)  
Telephone: 1-800-394-7084  
E-mail: [orders@fsapubs.org](mailto:orders@fsapubs.org)

## Funding methods

Cite: 34 CFR 668.162, except as noted.

### Receiving Funds Under Heightened Monitoring

After the 2012–2013 award year, schools that receive funds under the Reimbursement, Heightened Cash Monitoring 1 (HCM1), or Heightened Cash Monitoring 2 (HCM2) funding method will not receive an initial authorization of Direct Loan funds. After the 2012–2013 award year, those schools will receive an authorization for Direct Loan funds after the COD System has accepted and posted actual disbursement records.

## DRAWING DOWN FUNDS IN THE DIRECT LOAN PROGRAM

Generally, schools under the advanced payment method receive an initial Direct Loan authorization in late spring or early summer prior to July 1. Initial authorizations are based on a school's net accepted and posted disbursements from the previous award year.

As a school submits actual Direct Loan disbursement records, the COD System will track the total accepted and posted amount against the school's authorized amount. Each time the school's total net accepted and posted disbursements exceed the school's authorization, the COD system will give the school an automatic authorization increase up to the level of the school's net accepted and posted disbursements. (See *Volume 5* for a discussion of the various ways the Department provides funds to schools.)

## SUBMITTING ACTUAL DISBURSEMENT RECORDS

Most schools may submit disbursement data with the DRI set to *True* up to seven days in advance of the intended disbursement date. Note that before COD will accept a record with the DRI set to *True*, there must be an accepted and linked MPN on file in COD System.

Schools operating under the Reimbursement or HCM2 monitoring methods may not submit disbursement records before the disbursement date. These schools will receive funds when – (1) the school has made disbursements using the school's own fund; and (2) the FSA Payment Analyst (PA) has reviewed and accepted the required documentation, and released disbursement records.

## TIMING DRAWDOWN REQUESTS

You should time the submission of your request for Direct Loan funds to ensure that they will be disbursed within the three business days allowed under the cash management regulations. The chart that follows shows when a school can expect to receive requested funds.

| If a School Submits a Request         | The School Receives Funds |
|---------------------------------------|---------------------------|
| By ACH/EFT before 3 p.m. Eastern Time | On the next business day  |
| By ACH/EFT after 3 p.m. Eastern Time  | On second business day    |
| By FEDWIRE before 2 p.m. Eastern Time | On the same business day  |
| By FEDWIRE after 2 p.m. Eastern Time  | On the next business day  |

## REQUESTING DIRECT LOAN CASH

Schools that receive funds through the advanced payment method request funds directly through G5. In general, the amount of a school's authorization in COD will equal the maximum it can draw through G5. As a school submits and COD accepts actual disbursement data, the school's authorization will increase, and its funding in G5 should increase as well.

In addition to sending in actual disbursement data, a school can request an increase by requesting it through their COD Customer Service Representative (CSR). If the school has sufficient originations on the system to justify the increase, and it has no outstanding unsubstantiated funds for any previous year, the CSR will facilitate the increase.

Schools placed on the HCM2 and Reimbursement payment methods do not request funds from G5. Funds are requested on their behalf by payment analysts after their documentation has been reviewed and disbursement records have been released from the COD Action Queue.

## Estimating drawdown requests

Before requesting Direct Loan funds, the business office should reconcile (on a student-by-student basis) the Direct Loan disbursements it anticipates making with the Direct Loan disbursements expected by the Financial Aid Office for the same period. Then, following procedures like those suggested in *Volume 5* under *General rules for projecting cash needs*, the school will request the funds it needs to make disbursements to its Direct Loan borrowers.

Questions you might want to consider before submitting your drawdown request and that might affect the amount of Direct Loan funds that you draw down include:

1. If your school requests funds based on anticipated disbursements, does this often result in excess cash (funds the school doesn't disburse that have to be returned to ED)?
2. If your school requests funds on the basis of actual disbursements, does *fronting* its own funds until ED forwards the Direct Loan funds put the school in a difficult cash flow position?
3. Does your school look at its historical trends? For example,
  - Does your school compare how much it requests to how much it actually spends?
  - How much did your school request last year at this time?
  - Was the request sufficient to cover actual disbursements?
  - Was the request more than your school needed to cover disbursements?
4. Does your school often have to return funds because students withdraw within a few weeks of registration?

## RECEIVING DIRECT LOAN CASH

Schools receive funds when G5 forwards a payment request to the Federal Reserve System. The Federal Reserve System will then wire the funds to the bank account the school has designated to receive FSA funds.

As described in *The Federal Student Aid Handbook, Volume 2*, a school is allowed to use a single bank account for all FSA funds, including Direct Loan funds as long as the school can identify and keep track of the funds belonging to the Direct Loan Program. However, ED recommends establishing a separate federal bank account to receive Direct Loan funds. (A separate bank account makes it easier for a school to keep track of and reconcile Direct Loan funds.)

On occasion, the transmission wiring Direct Loan funds to a school does not go through. These are called *unsuccessful transmissions*. Transmissions are unsuccessful when there are technical difficulties, or when a school changes its designated bank account without informing ED.

If a school changes its designated bank account or the account is closed, the school must submit an updated SF1199A (direct deposit form) to ED. The school will not be able to receive additional FSA funds until it submits and ED receives the updated SF1199A.

Schools can obtain the SF1199A form from their bank(s) or they can contact the G5 hotline by phone at

**1-888-336-8930 (TTY: 202-401-6238)**

or by email at

**`edcaps.user@ed.gov`**

to request the form.

The Department contacts a school whenever it experiences a problem wiring Direct Loan funds.

**Disbursements**

34 CFR 668.164(b)

34 CFR 685.301(b)

34 CFR 685.303(b)

Sec. 428G(a) of the HEA

**It's not a loan from ED until it's booked**

A booked loan is one that is a legal binding obligation between the borrower and the U.S. Department of Education.

A loan is considered booked when the COD System has accepted

1. the loan origination record
2. a Master Promissory Note linked to that origination (the identifiers for the borrower match on the MPN and the COD common record), and
3. the first actual disbursement record for that loan ID.

Booking of PLUS and Grad PLUS Loans also require that an accepted credit decision be on file in the COD System.

**The COD 30-day Warning Report**

contains information on loans a school anticipates making between 120 days before the anticipated disbursement dates through 30 days following those dates.

Awards with anticipated disbursements will be removed from the report 30 days after the anticipated disbursement date unless an actual disbursement is received from the school.



A school can also use "Disbursement Acknowledgments" (also known as Disbursement Responses) received from ED to identify and help resolve unbooked loan issues. These provide information on whether records have been accepted or rejected. If rejected, a reject reason code is provided that will enable the school to research the issue, correct the transaction, and resend the data.

**DISBURSING DIRECT LOAN CASH**

*Be sure to review Volume 5 for a discussion of the general disbursement requirements for all FSA programs.*

After receiving the loan funds from the Department, you will disburse the funds by crediting them to the student's account to pay school charges and/or paying the student directly.

**Internal controls and disbursing Direct Loan cash**

Your school should have a process for ensuring that it does not unknowingly disburse funds to borrowers whose loans are unbooked. Until ED has accepted an origination record, a Master Promissory Note linked to that origination, and an actual disbursement (Disbursement Release Indicator (DRI) set to True), the loan is unbooked and a school is liable for any funds it has disbursed. If your school chooses to disburse funds and submit the information to ED after the disbursement is made, then your school should have a system for identifying unbooked loans and resolving them.

The Department provides a report to schools that may assist in the identification of unbooked loans—the **30-Day Warning Report**. The 30 Day Warning Report provides information regarding any element needed by ED to book loans that have been originated: a promissory note, and/or an initial disbursement (and accepted credit check for Direct PLUS Loans). The report also provides a list of any accepted MPNs that have not been linked to an award.

The report may be used to identify the component needed to book the loan. For more information, refer to the COD Technical Reference for the applicable award year (available at [www.fsadownload.ed.gov](http://www.fsadownload.ed.gov)).

For example, you could compare a list of those students to whom you have disbursed Direct Loan funds to the *Direct Loan 30-day Warning Report* and note those students for whom ED had not yet accepted a disbursement record. If you work at a school making only a few Direct loans, you can do this by hand. If your school processes a large number of Direct Loans, you may want to develop an automated computer process that compares this information and provides exception reports.

If, when you make this comparison, you find that you have disbursed funds to students whose disbursement records have still not been accepted, the business office can work with the financial aid office and COD to resolve the outstanding issues and eliminate your school's liability for the disbursed funds.



## Reporting disbursements

If your school submits anticipated data with its award data, the Disbursement Release Indicator (DRI) is set to *False* when the COD system receives it. To indicate that the student has received an *actual* disbursement, your school must update the DRI status to *True*, and transmit the updated disbursement information electronically to COD.

## Checking eligibility at the time of disbursement

Your financial aid office certified that a student is eligible when it originated the loan. However, **you must also ensure that the student has maintained continuous eligibility before you disburse Direct loan funds.**

The change that most often makes a student ineligible for a disbursement of Direct Loan funds is a reduction in enrollment status to less than half time. Therefore, it is important that your school have a system to verify a student's enrollment status at the time of disbursement. (See the discussion under *If a Student Begins Attendance on a Less Than Half-Time Basis* later in this chapter.)



If a student drops below half time temporarily, you can make disbursements of the loan proceeds if the student resumes at least half-time enrollment. However, you must ensure that the student continues to qualify for the entire amount of the loan (the change in the student's enrollment status may have resulted in a lower cost of attendance). The aid office must document its review of the eligibility of a student whose enrollment changes before funds are disbursed.

In all cases, but especially if a borrower has transferred from another school, you need to ensure that the student is not in default and has not and will not exceed the annual and aggregate loan limits. You can confirm this by checking the student's loan history on the NSLDS website, or by reviewing the NSLDS loan history section of the ISIR, which has information that is current as of the time the ISIR was processed.

When working with transfer students, you must also submit the transfer student's name and identifiers to NSLDS through the *Inform* process, so that NSLDS can notify you of any changes in the student's loan history that might affect eligibility at your school. (See *The Federal Student Aid Handbook, Volume 2 – School Eligibility and Operations*, and *Volume 1 – Student Eligibility* for more information on the Transfer Monitoring Process, and *Volume 3 – Calculating Awards and Packaging* for more information on using the Aggregate Outstanding Principal Balance (Agg OPB) field in NSLDS to determine if a student has exceeded the applicable aggregate loan limits.)

### Disbursements to study abroad students

Schools may disburse loans in a single disbursement to a student in an eligible study abroad program when the eligible home institution is originating the loan regardless of the length of the loan period, if your school's most recent calculated cohort default rate is less than 5% for the single most recent fiscal year for which data is available.

**Exceptions to 30-day delay**

34 CFR 685.303(b)(4)(i)(A), (B), &amp; (C).

**A late disbursement of a Direct Loan to a student who was enrolled in a series of modules may be prohibited**

A school may not disburse the proceeds of a Direct Loan to an ineligible borrower. Therefore, if a student who was enrolled in a series of modules withdraws before beginning attendance as a half-time student, and the student had not received the first disbursement of a Direct loan before withdrawing, the school may not make the first disbursement because the school knows the student withdrew before beginning half-time attendance. The school may not make a late disbursement because the regulation 34 CFR 668.164(g)(3)(iii) that permits a school to make a late disbursement of a Direct Loan for costs incurred to a student who did not withdraw, but ceased to be enrolled as at least a half-time student, does not apply. (The student never really began attendance in the classes needed to make the student half time.)

**Reasons a school might have to return DL funds:**

- The student failed to enroll for an enrollment period for which the loan was intended.
- The student failed to meet satisfactory academic progress or other eligibility requirements (for example, completing entrance loan counseling) at the time the loan was due to be delivered.
- The student withdrew during a period for which the loan was intended before the funds were delivered to a student, and the student is not eligible for a post-withdrawal disbursement.
- A return of funds is due to a lender as a result of a return of Title IV funds calculation.
- A student or parent requests a school to return DL Program funds to reduce the borrower's principal loan balance.

**Processing Direct Loan funds**

If a payment period has elapsed before you make your first disbursement to a student, the disbursement for the next payment period may include the amount that was not disbursed in the completed payment period.

A student in a non-term program must successfully complete coursework in a payment period to be eligible for a disbursement in the subsequent payment period.

**Required delay in making disbursements to first-time borrowers** – DL funds may be disbursed up to 10 days before classes begin (in most cases). However, as a first-time Direct Loan borrower, your school may not disburse the first installment of the Direct Loan until 30 calendar days after the student's actual attendance in the program of study begins unless:



1. the school in which the student is enrolled has a two-year or three-year cohort default rate of less than 15% for each of the three most recent fiscal years for which data are available; or
2. the school is an eligible home institution originating a loan to cover the cost of attendance in a study abroad program and has a Direct Loan Program cohort default rate or weighted average cohort rate of less than 5% for the single most recent fiscal year for which data are available.

**Disbursement rules for terms made up of modules** – Sometimes students enrolled in a modular program do not attend classes in the first module. The start date for disbursement purposes is the date classes begin for the first attended module. For example, the earliest the school can disburse Direct Loan funds to a first-year, first-time borrower who is scheduled to begin attendance in the second of three 5-week modules that make up the payment period is 30 days after the second module begins.

**Late disbursements** – If the student established eligibility for payment, and you originated the loan, but the student later becomes ineligible (because the student is no longer enrolled at the school as at least a half-time student for the loan period), you may still be able to make a late disbursement to the student. However, if the student never began attendance at least half time, the student cannot receive a late disbursement because the student never established eligibility for the Direct Loan. Please see *Volume 5* for a discussion of the conditions for and limitations on late disbursements.

## PAYMENT PERIODS

The definition of a payment period is applicable to all FSA programs except FWS. The common definition is integral to requirements for the administration of FSA funds. For example, FSA program disbursements (except FWS payments) must be made on a payment period basis. Another example is that a student's satisfactory academic progress (SAP) evaluation is required to correspond with the end of a payment period.

For clock-hour programs, the payment period is defined not only in clock-hours but also in weeks of instructional time. A student must successfully complete the clock-hours and weeks of instructional time in a payment period to progress to the next payment period.

For Direct Loans, the payment period for clock-hour programs, non-term credit-hour programs, and nonstandard term programs with terms not substantially equal in length are defined in clock or credit-hours and weeks of instructional time (as has been the case for the other FSA programs). Previously for such programs, second disbursements in loan periods were based on the calendar midpoint of the academic year. A student must successfully complete the clock-hours and weeks of instructional time in a payment period to progress to the next payment period (as has been the case for annual loan limit progression and for grant and Perkins Loan payment period progression in clock-hour and non-term credit-hour programs).

For FSA purposes, you will use either "term-based" payment periods (the payment period is the term), or payment periods based on the completion of credit or clock-hours and weeks of instructional time. The payment period you use depends on the kind of academic calendar your school uses, as described below, and the FSA program for which you are disbursing funds.

### *Programs using standard terms or substantially equal nonstandard terms (term-based)*

For credit-hour programs that use standard terms, or that use nonstandard terms that are substantially equal in length (see sidebar), the payment period is the term itself. For Direct Loans, these terms must be at least 9 weeks in length, or the term is treated as non-term.

### *Programs with nonstandard terms not substantially equal in length*

For purposes of Pell Grants, TEACH, FSEOGs, and Perkins Loans, if the program uses nonstandard terms, the payment period is the term. This includes terms that are not substantially equal in length.

For Direct Loans, if a credit-hour program has nonstandard terms that are not substantially equal in length, use the non-term payment periods described in *Clock-hour programs and non-term programs*.

#### **Payment periods**

34 CFR 668.4

For a complete treatment of Payment Periods, see *The Federal Student Aid Handbook, Volume 3*.

#### **Two payment period limit in an academic year or program**

Unless you are using terms as payment periods under FSA rules, there are no more than two payment periods in the lesser of the program, the academic year, or the remainder of the program.

You may make multiple disbursements within a single payment period; however, schools should note that making multiple disbursements within a payment period does not create a new or additional payment period.

#### **"Successfully Completes"**

34 CFR 668.4(h)(2)

A student "successfully completes" credit or clock-hours if your school considers the student to have passed the coursework associated with those hours.

#### **"Substantially Equal in Length"**

34 CFR 668.4(h)(1)

For purposes of measuring payment periods in programs offered in nonstandard terms, "substantially equal" means that no term in the program is more than two weeks of instructional time longer than any other term in that program. "Not substantially equal in length" means nonstandard terms that have at least one term more than two weeks of instructional time longer than another in the same program.

**Direct Loan payment periods for graduate/professional students (clock-hour, non-term, etc.)**

For a graduate or professional student in a clock-hour or non-term program, or a program with terms not substantially equal in length, the Direct Loan payment period is 1/2 of what a full-time student would be expected to complete, in both weeks of instructional time and credit or clock-hours. This policy also relates to annual loan limit progression for graduate or professional students (for more on loan limits, see *The Federal Student Aid Handbook, Volume 3*).

**Unable to determine completion of hours in payment period**

34 CFR 668.4(c)(3)

If your school is tracking progress by clock or non-term credit-hours and is unable to determine when a student has successfully completed half of the credit or clock-hours in a program, academic year, or remainder of a program, the student is considered to have begun the second payment period of the program, academic year, or remainder of a program at the later of the date (identified by the school) that the student has successfully completed:

1. half of the academic coursework in the program, academic year, or the remainder of the program; or
2. half of the number of weeks of instructional time in the program, academic year, or the remainder of the program.

**Clock-hour programs with terms**

The payment periods for clock-hour programs that use terms are determined in the same way as for non-term clock-hour programs. The student must successfully complete all the clock-hours in the payment period before receiving any more FSA funds. If a student doesn't complete all the hours scheduled for a term, each payment period still contains the number of clock-hours originally scheduled, even if this means that none of the student's succeeding payment periods coincide with the terms.

**Clock-hour and non-term programs**

The following types of programs must use payment periods that are based on the time it takes for the student to successfully complete the credit or clock-hours and weeks of instructional time in the payment period:

- ♦ Non-term credit-hour programs
- ♦ Clock-hour programs
- ♦ For Direct Loan purposes, nonstandard term credit-hour programs with terms not substantially equal in length

If you are determining the payment periods for a program for which one of the measures (either clock or credit-hours or length of instructional time) is less than an academic year and the other measurement is not, the program is considered less than an academic year in length, and you follow the payment period rules for a program that is less than an academic year.

*If the program is one academic year or less*, the academic year or program is divided into two payment periods. The first payment period is the period in which the student successfully completes half of the credit or clock-hours AND half of the weeks of instructional time in the program. The second payment period is the period in which the student completes the remainder of the program.

*If the program is more than one academic year in length:*

- ♦ Use the rule for one academic year (above) for each full academic year in the program.
- ♦ For any remaining portion of a program that is half of an academic year or less, the remaining portion is treated as a single payment period.
- ♦ For any remaining portion of a program that is more than half of an academic year but less than a full academic year, the remaining portion is divided into two payment periods and the first payment period is the period in which the student successfully completes half of the credit or clock-hours AND half of the weeks of instructional time in the remaining portion.

### *Progression based on completion of hours and weeks (rather than term-based progression)*

As described in the previous section, there are two cases where you must use credit or clock-hours and weeks of instructional time to determine the length of the payment period:

- ♦ clock-hour and non-term credit-hour programs; and,
- ♦ for Direct Loans, programs with terms not substantially equal in length.

For these programs, each subsequent payment period cannot begin until the student successfully completes the credit or clock-hours and weeks of instruction in the previous payment period.

Except for a second or subsequent loan period in Direct Loans, if a student completes additional weeks of instructional time or hours while completing the other measure of a payment period, these additional weeks or hours count towards completing the next payment period. For Direct Loans, the first payment period of a second or subsequent loan period includes only the weeks of instructional time and hours that begin on the first calendar day of the new loan period.

#### **Clock-hour payment period progression and weeks of instructional time**

Payment period progression in clock-hour programs requires that the student complete both the clock-hours and weeks of instructional time.

#### **Completion requirements**

Payment periods: 34 CFR 668.4  
 Pell Grants: 34 CFR 690.75(a)(3)  
 Direct Loans: 34 CFR 685.301(b) and (b)(6)  
 TEACH: 34 CFR 686.11  
 Excused absences: 34 CFR 668.4(e)

### **Direct Assessment Program Payment Periods**

34 CFR 668.10, Dear Colleague Letter GEN-13-10

Because Direct Assessment programs don't use credit or clock-hours as measures of learning, you must establish a method to reasonably equate the Direct Assessment program (or Direct Assessment portion of any program) to credit or clock-hours for the purpose of determining the payment periods in the program. You must provide a reasonable written description that supports your claim that the program or portion of a program is equivalent to a specific number of credit or clock-hours (note that any credits awarded for "life experience" are not counted for FSA purposes).

Once you have established credit or clock-hour equivalencies, Direct Assessment program payment periods are measured in the same manner as other programs, according to the payment period rules described earlier in this chapter.



## Disbursement timing

Disbursement by payment period  
34 CFR 668.164(b),  
HEA Sec. 428G(a)

Early disbursements  
34 CFR 668.164(f)

30-day delay for first-time borrowers  
34 CFR 685.303(b)(4)

Disbursement of second & subsequent  
disbursements  
34 CFR 685.301(b)(3)

### Disbursement by payment periods

The Cash Management Regulations specify that a school must disburse all FSA grant and loan funds on a payment period basis. For all types of programs other than FWS, FSA funds are disbursed using the payment period definitions in 34 CFR 668.4.

## TIMING OF DISBURSEMENTS—GENERAL RULES

Except for Federal Work-Study (FWS) wages, FSA disbursements are made on a payment period basis. The timing of disbursements is especially important for Pell and TEACH Grants and Direct/Direct PLUS Loan funds because you must report disbursement dates to the Department (through the COD system).

### *Basic rules for early and delayed disbursements*

In general, the earliest that a school may disburse FSA funds by crediting the student's account or by paying directly to the student or parent is 10 days before the first day of classes for that payment period.

For credit-hour non-term and clock-hour programs, the earliest a school may disburse FSA funds (other than FWS wages) is the later of:

- 10 days before the first day of classes for that payment period; or
- the date the student completed the previous payment period for which he or she received FSA funds.

This disbursement timing limitation is also applicable to Direct Loan and Direct PLUS Loan disbursements in credit-hour programs with non-standard terms that are not substantially equal in length. In some cases, as we'll discuss, other restrictions apply.

If a student is in the first year of undergraduate study and is a first-time Direct Loan borrower, your school may not disburse the first installment of the Direct loan until 30 calendar days after the student's program of study begins. You are not required to delay disbursement for such students if you have a cohort default rate of less than 15% for each of the three most recent years for which data are available or if you are a home institution originating a loan to cover the cost of attendance in a study abroad program and have a cohort default rate of less than 5% for the single most recent year for which data are available.

If a student is scheduled to begin class in a module of a term-based program that starts after the first day of classes for the semester, you may not make the initial disbursement until 10 days before the start of the first module in which the student is scheduled to begin attendance. Also, if you post a credit to a student's account before the earliest date permitted by regulation, the date the FSA funds are considered to be disbursed is the earliest date permitted by regulation.



### Retroactive disbursements for completed periods

Your school must pay a student retroactively for any completed payment periods within the award year if the student was eligible for payment in those periods. Thus, in the case of a Pell Grant, if you don't receive a valid SAR/ISIR for a student until the spring term but the student was also enrolled and eligible for a disbursement in the previous fall term, that student must be paid retroactively for the fall term.

If you are paying a Pell or TEACH Grant for a completed term in which no disbursement has been made, the *grant must be based on the hours completed by the student for that term*. If the student had enrolled full time at the beginning of the fall term but dropped to half-time status by the end of the term, the retroactive disbursement must be based on half-time status. At a term school, all completed coursework counts towards enrollment status, including earned F's and incompletes that have not converted to "F" grades because the student failed to complete the course work.

For Direct Loans, a student may be eligible to receive loans for all periods of the loan period, unless the student was ineligible for the prior pay period due to failure to meet SAP standards, in which case the student may not receive Direct Loan funds for the prior period(s) in which they did not meet SAP requirements. *To include an earlier period of eligibility when originating a Direct Loan, the student also has to have completed at least a half-time course load in that period.* For instance, you could include the fall term and its costs when originating a loan for the student in the spring, if your school's half-time standard is six credit hours and the student received a "B" and an incomplete in two three-hour courses taken that fall.

In the case of loans disbursed on a payment period basis, if a student attended the previous payment period but did not maintain eligibility for a Direct Loan, you may not include the previous payment period or its costs in the loan period.

A school can make the retroactive disbursements in one lump sum.

### Multiple disbursements within a payment period

FSA regulations generally permit schools to pay FSA funds at such times and in such installments *within* each payment period as will best meet students' needs. This gives schools the ability to apportion the payment if doing so will be in the best interest of the student. For example, if a payment period is particularly long, a school might choose to pay in multiple installments to the extent program requirements permit, to ensure that a student will have funds to pay rent later in the payment period.

#### Multiple loan disbursements within a payment period

A school may schedule multiple disbursements *within* a payment period, as long as the disbursements in a loan period are substantially equal.

However, for non-term and clock-hour programs, a school may not elect to have more than two payment periods per loan.

Schools that use payment periods as the basis for their Return of funds calculations should note that making multiple disbursements within a payment period does not create a new or additional payment period. See Volume 5 to see how to perform withdrawal calculations when making multiple disbursements.

#### Exceptions to the multiple disbursements requirement

There are **four** significant exceptions to the multiple disbursement requirement:

1. If any payment period has elapsed before you make a disbursement, you may make a single disbursement for all completed payment periods.
2. If a loan is not disbursed by payment periods (i.e., terms), and the student has reached the calendar midpoint and successfully completed one-half the hours in the loan period, you may make a single disbursement.
3. You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period, if your school's most recently calculated cohort default rate is less than 5% for the single most recent fiscal year for which data is available.
4. Schools with cohort default rate of less than 15% for each of the three most recent fiscal years for which data is available, including foreign schools, may disburse, in a single disbursement, loans that are made for one semester, trimester, quarter or four-month period.

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## Interim Disbursements

34 CFR 668.58—Interim disbursement options

34 CFR 668.59—Consequences of change in FAFSA information

Also bear in mind that FSA funds must be provided to students in a timely manner to best assist them in paying their educational expenses. Consequently, a school may not delay the disbursement of funds until after the 60% point, for example, to avoid performing a Return of Title IV Funds calculation and the requirements that go along with it or to prevent the student from having to return funds upon withdrawal.

## INTERIM DISBURSEMENTS

Under certain limited circumstances, you may make interim disbursements to students. If you have no reason to believe that an applicant's FAFSA information is incorrect, *prior to verification*, you may do the following:

1. Make one Pell, Perkins, or FSEOG disbursement for the applicant's first payment period;
2. For FWS, employ or allow another entity to employ the applicant, once he/she is an eligible student, for the first 60 consecutive days after the student's enrollment in the award year; or
3. Originate a Direct Subsidized Loan *but not disburse the loan funds*.

If, after verification, and ensuring that you've addressed any corrections (in accordance with the regulation on the consequences of changes in FAFSA data, 34 CFR 668.59), none of the changes to the applicant's FAFSA data will result in a change in the amount he is eligible to receive under any Title IV program, you may take any of the three actions noted above, as well as disburse a Direct Subsidized Loan prior to receiving the corrected valid SAR or ISIR.

## DIRECT/DIRECT PLUS LOAN DISBURSEMENTS

### *Standard terms and substantially equal nonstandard terms at least nine weeks in length (SE9W)*

If the program uses *standard academic terms* (semesters, trimesters, or quarters) or it has *nonstandard terms of substantially equal length*, at least one disbursement must be made in each term in the loan period. A program is considered to have substantially equal terms if no term in the program is more than two weeks of instructional time longer than any other term in the program.

*If there is more than one term in the loan period*, the loan must be disbursed over all terms of the loan period. For example, if a loan period is for an academic year that includes three quarters, the loan must be disbursed in three substantially equal disbursements.

If there is only one term in the loan period, the loan generally must be disbursed in two payments. In a credit-hour program that uses a semester, trimester, or quarter system, or is “SE9W” (see sidebar), the second disbursement may not be made until the student reaches the calendar midpoint between the first and last scheduled days of class of the loan period.

### *Clock-hour programs, non-term credit-hour programs, and programs with non-standard terms that are not substantially equal*

If the program is one academic year or shorter, the loan period is usually the length of the program. If the program is longer than an academic year, there will usually be another loan period for any subsequent academic year or remaining portion of an academic year.

For each loan period in these programs:

- ♦ The loan must be disbursed in at least two substantially equal amounts, with the first disbursement generally disbursed at or near the beginning of the loan period; and
- ♦ The second half of the loan proceeds may not be disbursed until the student has successfully completed half of the coursework and half of the weeks of instructional time in the loan period.

The payment period for the remainder of a program less than or equal to one-half of an academic year is the remainder of the program.

When a Direct Loan is made for one payment period, the loan must be disbursed in two installments, and the second installment may not be disbursed until the student has successfully completed half the number of credit or clock-hours and half the weeks of instructional time in the payment period.

### **Direct/Direct PLUS Loan disbursements**

Standard terms and terms that are substantially equal in length  
34 CFR 668.4(a)

Programs without terms, clock-hour programs, and terms not substantially equal  
34 CFR 668.4(b), (c), and (h)(2)

### **Nonstandard “SE9W” terms**

If a credit-hour program has nonstandard terms, the terms are substantially equal in length, and each term is at least nine weeks of instructional time in length, then the terms, for annual loan limit progression purposes, are referred to as “SE9W.”

The length of terms are measured in weeks of instructional time, as defined in *The Federal Student Aid Handbook, Volume 3*. Nonstandard terms are substantially equal if no term in the loan period is more than two weeks of instructional time longer than any other term in that loan period.

For more detail on SE9W terms, see *The Federal Student Aid Handbook, Volume 3*.

### **Direct Loans for one payment period**

34 CFR 685.301(b)(3)(ii)

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### **Low cohort default rate exemptions**

Section 428 G (a)(3) and (b)(1) of the HEA,  
Direct Loans 34 CFR 685.301(b)(6)

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### **Single disbursements for study-abroad students**

34 CFR 685.301(b)(6)(i)(B)

If a borrower is enrolled in a study-abroad program approved for credit by the home school and the home school had a cohort default rate less than 5% in the single most recent fiscal year for which data are available, the school may make a single disbursement of the loan proceeds. Also see the Cohort Default Rate Guide on IFAP.

### ***Exceptions to disbursement rules for schools with low default rates***

Schools with cohort default rates of less than 15% for each of the three most recent fiscal years for which data are available, including eligible foreign schools, may disburse, in a single installment, loans that are made for one semester, one trimester, one quarter, or a four-month period. Such schools also are not required to delay the delivery or disbursement of a first disbursement of a loan for 30 days for first-time, first-year undergraduate borrowers.

You may pay a student in an eligible study-abroad program in one disbursement, regardless of the length of the loan period if your school's most recently calculated cohort default rate is less than 5% for the single most recent fiscal year for which data are available.

When a school that qualifies for the cohort default rate exemption offers:

- ◆ terms not substantially equal in length;
- ◆ non-term credit-hour programs; or
- ◆ clock-hour programs;

the payment period, for purposes of Direct Loan funds, is the portion of the program to which the cohort default rate exemption applies. For example, if the loan period for a non-term credit-hour program is three months in length and the institution meets the cohort default rate exemption, the three-month loan period is the payment period, and only one disbursement of the loan is required for that period.

## IF A STUDENT BEGINS ATTENDANCE LESS THAN HALF-TIME

If a student who received a Direct Loan disbursement begins attendance for the loan period but does so on a less than half-time basis despite having originally enrolled (registered for classes) on at least a half-time basis, neither the school nor the student is required to return any loan proceeds. However, the institution may not make any subsequent disbursements of the loan, unless the student resumes enrollment on at least a half-time basis.



You must report the change in the student's enrollment status using NSLDS enrollment reporting. The student's loan servicer will then change the student's loan status from in-school to grace period, or from an in-school deferment to repayment status.



If your school has disbursed loan funds (as part of a Title IV credit balance) to the student or parent borrower, these funds will be collected by the servicer for the loan.

## IF A STUDENT NEVER BEGINS ATTENDANCE ("NO-SHOWS")

If a student never begins attending classes at your school or fails to return as expected, you must use the G5 payment system to return –

- ♦ any Direct Loan funds that your school has credited to the student's account; and
- ♦ the amount of any and all payments made by the student to the school (not to exceed the original Direct Loan disbursement to the student).



Within 15 days, your school must update the student's COD record by making a downward adjustment, reducing the borrower's loan by the amount the school returned to the G5 system.



In addition, you must report the change in the student's enrollment status using NSLDS enrollment reporting. The student's loan servicer will then change the student's loan status from in-school to grace period, or from an in-school deferment to repayment status, and send a 30-day demand letter to the student.

Note that if your school has disbursed loan funds (as part of a Title IV credit balance) to the student or parent borrower, these funds will be collected by the servicer for the loan.

### When a student fails to begin attendance or begins less than half time

34 CFR 685.303(b)(3)  
34 CFR 685.211(e)(3)  
34 CFR 668.164(f)  
34 CFR 668.21(a)  
DC GEN-13-02

### Time frame to disburse or return funds

34 CFR 668.167

### NSLDS Enrollment Reporting

If a student who received a Direct Loan disbursement either fails to begin attendance or begins attendance on a less than half-time basis, the school must report the change in the student's enrollment status to the Department (using the NSLDS enrollment reporting process) as required by the regulations at 34 CFR 685.309(b). Upon receiving the revised enrollment status from NSLDS, the student's federal loan servicer will change the student's loan status as follows:

- In-school status will change to grace period status.
- In-school deferment status will change to repayment status.

## RETURN OF AID WHEN A STUDENT WITHDRAWS FROM ALL CLASSES

If a student has begun attending classes but then withdraws from all classes in a program (ceases enrollment), you must calculate whether funds must be returned to the FSA programs or the student is owed a post-withdrawal disbursement of FSA funds. This calculation involves all FSA funds received by the student (except work-study), so it will not be described in detail in this Volume. (See *Volume 5* for complete coverage of Returning Funds when a student withdraws.)

If the required Return calculations determine that your school must return some of the FSA funds that were received, these funds are returned first to the Direct Loan Program through the G5 payment system, up to the amount originally borrowed. When this happens, you must make a downward adjustment to the borrower's loan record and forward the change to COD.

After the COD system receives and accepts the adjustment, it passes the information on to the DL servicer so that the student or parent's loan balance is reduced accordingly.

If the withdrawal calculation indicates that the student owes funds back to the Direct Loan Program, the student will repay those funds according to the terms of the MPN. Your school does not need to attempt to collect any funds disbursed directly to the student.

If the withdrawal calculation indicates that the student is owed a Post-withdrawal loan disbursement or the student qualifies for a late disbursement after the enrollment period is over, you must update the student's loan record and transmit the change to the COD system as you would when reporting any other actual disbursement.



## ADMINISTRATIVE AND FISCAL MANAGEMENT FUNCTIONS

### *Enrollment reporting with NSLDS and the roster file*

All schools participating (or approved to participate) in the FSA programs must have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a roster file (formerly called the Student Status Confirmation Report or SSCR), or by updating the file on the NSLDS Professional Access website. Student enrollment information is extremely important because it is used to determine if the student is in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds.

At scheduled times during the year, not less than semiannually, NSLDS sends roster files electronically to your school (or its designated servicer) through its SAIG mailbox. However, schools are required to notify ED of changes in a student's status within 30 days of the changes unless the school will submit a roster response file within 60 days. The file includes all of the school's students who are identified in NSLDS as Direct Loan borrowers (or the beneficiaries of a Direct PLUS Loan made to a parent borrower), Perkins Loan borrowers, and Pell Grant recipients. The file is not necessarily connected to loans made at your school—you also must report information for students who received federal student aid at other schools but are currently attending your school.

Your school (or servicer) must certify the information and return the roster file within 30 days of receiving it. You may also go to <https://www.nslsdfap.ed.gov/nslsdfap/> and update information for your students online. You're required to report changes in the student's enrollment status, the effective date of the status, and an anticipated completion date.

If the roster file that you are returning contains records that don't pass the NSLDS Enrollment Reporting edits, you will receive an error acknowledgement file with the records that didn't pass. Within 10 days, you'll need to make the necessary corrections to these records and resubmit them. Note that records that have errors do not update the NSLDS database. If you are using a servicer, you may need to assist the servicer in correcting these errors. Please remember that even if you contract with an enrollment servicer, your school is ultimately responsible for notifying NSLDS of student enrollment changes.

### Enrollment Reporting Requirements

34 CFR 685.309(b)  
DCL GEN 96-5  
DCL GEN 96-17  
DCL GEN 12-03

### To receive Roster Files, schools must first enroll in SAIG

<https://www.fsawebenroll.ed.gov/>

### Getting Your NSLDS User ID and Password

You must have a valid NSLDS user ID and password to use the NSLDS web site.

To get a user ID and password:

1. Go to the SAIG site at [www.fsawebenroll.ed.gov](http://www.fsawebenroll.ed.gov) and click Enroll
2. Follow the SAIG site's instructions to enroll for NSLDS access.
3. When your application is approved, you will receive your NSLDS user ID and a default password in the U.S. mail.

The first time you access the NSLDS web site, you will be asked to choose a new password to replace the default password.

If you have any problems accessing the NSLDS web site, call the Customer Service Center (CSC) at 1-800-999-8219, Monday through Friday from 8 a.m. to 8 p.m. ET.

### Enrollment Reporting/SSCR Technical References

For complete guidance on reporting enrollment information to NSLDS, including record layouts, error codes, etc., see the **Enrollment Reporting Guide** available online on the [ifap.ed.gov](http://ifap.ed.gov) site under "NSLDS Reference Material - NSLDS User Documentation."

### Enrollment Reporting Online

Once you've established your NSLDS identity, you can use the system to:

- **Enrollment Reporting Schedule**—Set up or change your current enrollment schedule, create a new schedule, or request that additional ad hoc Enrollment Reporting roster files be sent to your school.
  - **Enrollment Update**—Select a student or range of students, and make changes to their enrollment information. You can choose which students to retrieve and how they are to be sorted—by name, Social Security Number, school-designated identifier, or enrollment status. The default setting displays all students associated with your school, thirty at a time/per page.
- Enrollment Add**—Add students to your Enrollment Reporting roster. Once a student has been added, you can immediately certify the enrollment status and anticipated completion date for that student.
- Note:** The system contains all enrollment data received on or after of January 1, 2002.
- **Enrollment Detail**—View a detailed history of a student's enrollment status.
  - **Enrollment Timeline**—View a chronology of a student's enrollment status as reported to NSLDS.

### Recent enhancements to the reporting process

Three additional data items have been added to a school's Enrollment Reporting files. These new data items were included in the new roster layouts with compliance scheduled for the end of March 2013.

1. **Credential Level.** Schools (or their servicers) will report the Credential Level of the academic program that the student completed when reporting an Enrollment Status of "Graduated – G". A Credential Level data field is included in the revised NSLDS Enrollment Reporting file layouts.

The Credential Level codes are:

- 01 – Undergraduate Certificate
- 02 – Associate's Degree
- 03 – Bachelor's Degree
- 04 – Post-Baccalaureate Certificate (including postgraduate certificates)
- 05 – Master's Degree
- 06 – Doctoral Degree
- 07 – First Professional Degree

2. **Student's Address –School Reported.** Schools (or their servicers) will report students' permanent home addresses. Student address data fields are included in the revised NSLDS Enrollment Reporting file layouts.
3. **Term Dates.** As an option, schools (or their servicers) may report the beginning and ending dates of the academic term of the student's current (or most recent) enrollment. Consider, for example, a school that is reporting enrollment for its spring 2011 term that began on January 25, 2011, and will end on May 15, 2011. When reporting enrollment for students enrolled in the spring 2011 term, the school would report January 25, 2011, as the term begin date and May 15, 2011, as the term end date. These are optional reporting fields that will be useful to the student's loan servicer.

## Important enrollment reporting reminders

To ensure the integrity, reliability, and usefulness of NSLDS enrollment data, it is important that all schools understand the requirements of NSLDS Enrollment Reporting. Pay special attention to the following requirements:

1. ***Recertification of Enrollment Status.*** Schools must confirm the enrollment status of all students included on its NSLDS Enrollment Reporting file—even if the enrollment status for that student has not changed. For example, consider a student who began enrollment at a school on a full-time basis on August 25, 2012, with the school reporting that enrollment on its fall 2012 Enrollment Reporting file with a certification date of October 14, 2012. The school will continue to certify the student's enrollment as full-time on all subsequent NSLDS enrollment files as long as the student has maintained continuous full-time enrollment. Thus, if this student remained enrolled full-time through the spring of 2013, the school would have reported in its spring 2013 enrollment reporting file, full-time enrollment with an effective date back to August 25, 2012, when the student began continuous full-time enrollment. Of course, the certification date would be the date in spring 2013 when the enrollment was reported.
2. ***Completion/Graduation Data.*** It is critically important for the Department's evaluation of the Title IV student aid programs that schools report accurate and timely information regarding completion of the student's academic program (NSLDS enrollment status of Graduated (G)). Therefore, schools (or their agents) must report to NSLDS an Enrollment Status of "G" when the student has completed his or her academic program.
3. ***Transfer Students – School Responsibility.*** NSLDS has long encouraged schools to add transfer students to their enrollment rosters if the student had received Title IV aid at one or more other schools. Adding such students can be done by using the NSLDS online enrollment tools or by adding the student to a batch Enrollment Reporting file. Reporting enrollments for these students allows lenders and servicers to maintain or place the student in the proper status (e.g., in-school status, in-school deferment status) and avoids having schools complete paper enrollment verifications.

Schools that use an enrollment servicer are reminded that the servicer must add a student who does not already appear on the school's NSLDS roster.



### Updating enrollment information on the Web

You can create or update student enrollment status by using the NSLDS Professional Access website for aid professionals:

[https://www.nslsdfap.ed.gov/nsls\\_FAP/default.jsp](https://www.nslsdfap.ed.gov/nsls_FAP/default.jsp)

NSLDS Customer Support Center:  
1-800-999-8219

**Enrollment Status of Less than Half-Time.** It is very important that schools update the enrollment of a student for whom they had previously reported as being enrolled less than half-time (Enrollment Status Code of “L”). (One of the important reasons for updating the enrollment of such students is that a student who may be enrolled less than half-time at more than one school may be eligible for an in-school status or an in-school deferment on his or her Title IV loans.)

Reporting enrollment status changes is important not only when the student’s enrollment increases, but also when the student either completes the program (Enrollment Status Code of “G”) or withdraws from the school (Enrollment Status Code of “W”).

The enrollment status of “L” now (March 31, 2013) also requires an anticipated completion date.

### Other notifications

Unless it expects to report student enrollment data to NSLDS within the next 60 days, your school must update the student’s enrollment status in NSLDS within 30 days if it discovers that a –

1. Direct Subsidized/Unsubsidized Loan or Direct PLUS Loan has been made to or on behalf of a student who enrolled at that school but who has ceased to be enrolled at least half time;
2. student who is enrolled and who has received a Direct Subsidized/Unsubsidized Loan has changed his or her permanent address.

## RECONCILIATION AND CLOSEOUT

In the Direct Loan Program, ensuring that loan and disbursement records substantiate the use of Direct Loan funds is critical to program integrity and fiscal responsibility. Reconciliation and closeout are two processes that substantiate the use of Direct Loan funds and help ensure school compliance with the appropriate regulations.

### *Reconciliation*

Direct Loan schools are required to reconcile all Direct Loan funds received and disbursements made on a monthly basis.

A School Account Statement (SAS) is delivered to schools immediately following the first full weekend of the month, with data through the end of the previous month. The SAS is transmitted to each school's Student Aid Internet Gateway (SAIG) mailbox. The SAS Report represents the Department's official monthly Ending Cash Balance for a school. We encourage schools to review and compare their internal records to the data contained within the SAS report by –

- ♦ comparing the SAS Cash Summary to school cash records;
- ♦ comparing the SAS Cash Detail to school accounting records; and
- ♦ comparing SAS Loan Detail to school loan records.

In reconciling to the SAS Cash Summary, schools should ensure that:

- ♦ at a summary level, the school records match the SAS Cash Summary amounts for individual transaction types (e.g., cash receipts, etc.);
- ♦ if the summary level transactions do not match, that a detailed analysis is performed to identify any discrepancies;
- ♦ the school agrees with the Department's Ending Cash Balance or can explain the differences; and
- ♦ reasons for Ending Cash Balance discrepancies are documented and tracked for resolution in the next month's reconciliation.

### Direct Loan Tools 12.0

The DL Tools software is a multiyear Windows-based application designed as a supplemental software product for Direct Loan participants. It's designed to process data for multiple program years and provide the following functionality:

- Compare the School Account Statement (SAS) to loans and actual disbursements recorded in EDEExpress or an external file, and/or compare the SAS to the DL Tools Cash database.
- Print the SAS in a readable format.
- Track Cash Receipts (drawdowns) and Refunds of Cash.
- Rebuild your Direct Loan origination and disbursement records in EDEExpress using an automated process.
- Run the Disbursement Measurement Tool Report to help monitor Direct Loan records in your EDEExpress database.

In reconciling to SAS Cash Detail, schools should ensure that –

- ♦ all drawdowns and refunds of cash are accounted for and applied to the correct year;
- ♦ funds were returned correctly as refunds of cash or payments; and
- ♦ funds are not recycled for disbursements in a different award year.

Documents that can assist you in comparing Cash Detail include –

- ♦ Cash Detail Comparison Report (DL Tools),
- ♦ financial aid office cash report,
- ♦ COD website – Refund of Cash/Cash Activity,
- ♦ G5 website and reports,
- ♦ SAS Cash Detail,
- ♦ school's business office cash report,
- ♦ school's bank statements, and
- ♦ school's cancelled checks.

In reconciling to SAS Loan Detail, schools should ensure that all –

1. disbursements and adjustments are accurately reported and accepted by COD;
2. batches have been sent to and Common Record responses have been imported;
3. unbooked loans are resolved;
4. rejected records are reviewed and resolved; and
5. related refunds of cash have been returned to the Department according to the guidance provided in (Electronic Announcement) EA 2012-03-13 (Direct Loans) at

[www.ifap.ed.gov/eannouncements/031212UpdatedGuideonMakingDLRefundsofCash.html](http://www.ifap.ed.gov/eannouncements/031212UpdatedGuideonMakingDLRefundsofCash.html).



Documents that can assist you in comparing Loan Detail include –

- ♦ SAS Reports (e.g., the SAS Detail on Demand Report),
- ♦ 30-day Warning Reports,
- ♦ COD website,
- ♦ DL Tools/SAS Compare Program,
- ♦ Booked Status Report (via the reporting functionality in your financial aid system),
- ♦ Pending Disbursement List, and
- ♦ Funded Disbursement List.

COD Customer Relations Reconciliation Specialists are available to help your school with the reconciliation process.

### Closeout

Direct Loan schools are required to have –

- ♦ a \$0 ending cash balance (total funds received = total disbursements reported); and
- ♦ total Net Unbooked Disbursements of \$0 by the point in the program year known as **Program Year Closeout**, as reflected on the School Account Statement (SAS) Report.

ED encourages schools to include the following simple steps while reviewing their school's internal records and comparing them to the Common Origination and Disbursement (COD) System records –

1. ensure all drawdowns and refunds of cash are accounted for and applied to the correct program year;
2. ensure all disbursements and adjustments are accurate and have been reported to and accepted by the COD System;
3. ensure all batches have been sent to and accepted by the COD System;
4. ensure all unbooked loans are resolved;
5. resolve all outstanding rejected records; and
6. return all refunds of cash to us according to the guidance provided in EA 2012-03-13.
7. There are numerous tools available to assist schools in reconciliation and closeout efforts. These tools include –
  - SAS Reports;
  - 30-day Warning Reports;
  - G5 website and reports;

Schools that have remaining balances at closeout are billed for any remaining balance, and a receivable is created by the Department to ensure any excess funds are repaid.

- COD website (particularly the Funding Information screen);
- DL Tools/SAS Compare Program; and
- Customer Service Representative/Reconciliation Specialist assistance.

If you require assistance in performing reconciliation or closing a program year, please contact the COD School Relations Center at

**(Grants) 1-800-474-7268**

**(Loans) 1-800-848-0978**

**Email: [CODSupport@ed.gov](mailto:CODSupport@ed.gov)**

## LOAN CONCEPTS FOR THE BUSINESS OFFICE

### ***Accepted MPN***

Once a borrower completes an MPN, it is examined in the COD system for completeness. If, during processing, COD finds that all of the required fields on an MPN have been completed correctly, COD will accept and link the MPN. An accepted and linked MPN is one of the criteria required for a loan to be *booked*.

### ***Booked Loan***

A booked loan is one that is a legal binding obligation between the borrower and the U.S. Department of Education. A loan is considered booked when the COD System has accepted the loan origination record (the award record has been linked to the MPN {the identifiers for the borrower match on the MPN and the COD common record}), the MPN, and the first actual disbursement record for that loan ID. PLUS and Grad PLUS Loans also require an accepted credit decision on file in the COD System to be booked.

If the school is a single-year functionality school, the Direct Loan School Code and the academic start/end dates have to match a same-year like loan for it to link.

### ***Borrower***

An individual to whom a Direct Loan is made and who has the legal responsibility to repay the loan according to the terms and conditions of the promissory note.

### ***Capitalizing interest***

Capitalizing interest is adding unpaid, accrued (accumulated) interest to the principal balance of a loan (that is, to the total amount borrowed). Whether interest will capitalize depends on whether interest is (1) unpaid and (2) the borrower's loan changes statutes (for example moves from deferment to repayment).

### ***Default***

A status that a loan is placed in if the borrower has failed to make a payment when due for more than 270 days or violates other terms and conditions of the promissory note. Borrowers who default on Direct Loans lose eligibility for further federal student aid, will have their default reported to national credit bureaus, and may have their wages garnished or tax refunds offset by the government.

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### **Capitalizing interest**

34 CFR 685.202(b)

**Deferments,**

34 CFR 685.204

***Deferments***

Deferments are periods during which borrowers are entitled to have payments of principal and interest on Direct Loans postponed if they meet the eligibility criteria for the deferment. No interest accrues on Direct Subsidized Loans during periods of deferment. However, interest accrues for borrowers of Direct Unsubsidized and Direct PLUS Loans. Borrowers who do not pay the interest that accrues during a period of deferment will have that interest capitalize when the deferment ends. Examples of reasons that entitle a borrower to deferment include, being enrolled in postsecondary education on at least a half time basis, unemployment, or economic hardship.

**Discharge**

34 CFR 685.212

***Discharge***

A loan discharge removes the obligation of the borrower to repay all or a portion of a loan. Under certain conditions, all or a portion of a borrower's loan debt may be cancelled or discharged. Examples of conditions for which discharge may be granted include:

- ♦ borrower death or total and permanent disability,
- ♦ borrower bankruptcy,
- ♦ a closed school,
- ♦ a school falsely certifying a loan, and
- ♦ a school failing to refund loan proceeds.

***Endorser***

An individual who signs a promissory note and agrees to repay the loan in the event that the borrower does not.

**Forbearance**

34 CFR 685.205

***Forbearance***

Forbearances are similar to deferments. A forbearance refers to periods in which borrowers are allowed to temporarily stop making payments, extend the time for making payments, or temporarily make smaller payments than previously scheduled. Interest accrues on all Direct Loans during period of forbearance and will capitalize at the end of the forbearance if the borrower does not pay it.

Forbearances can be discretionary or mandatory. A discretionary forbearance is one that a lender is not required to grant. Most lenders grant forbearance in cases where medical or other similar reasons cause the normal monthly payment amount to be temporarily unaffordable. A mandatory forbearance is one that a lender is required to grant if the borrower meets certain eligibility criteria. Examples of reasons that entitle a borrower to a forbearance include having a large student loan debt burden or serving in a medical or dental internship or residency.

## ***Forgiveness***

Loan forgiveness removes the obligation of the borrower to repay all or a portion of a loan. Under certain conditions, all or a portion of a borrower's loan debt may be forgiven. Examples of conditions for which forgiveness may be granted include:

- ♦ teaching in a low-income school; or
- ♦ providing public service

## ***Foreign school***

A school not located in a state, territory, or possession of the United States, or otherwise administered by the government of the United States. For the purposes of the Direct Loan Program, a state includes a State of the Union, American Samoa, the Commonwealth of Puerto Rico, the District of Columbia, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau.

## ***Grace Period***

The grace period is the six-month period before a loan enters repayment. The grace period starts the day after a borrower ceases to be enrolled at least half-time in an eligible school. It ends six months later, on the day before the loan repayment period starts.

Generally, Direct Subsidized Loans do not accrue interest during the grace period. However, the Consolidated Appropriations Act of 2012 temporarily eliminated the interest subsidy previously provided on Direct Subsidized Loans during the grace period when students are no longer enrolled at least half-time. This change is effective for Direct Subsidized Stafford Loans that are first disbursed on or after July 1, 2012, and on or before June 30, 2014. During the grace period, borrowers are not required to make payments on the loan principal but are responsible for the interest that accrues during the grace period.

If a student returns to school at least half time before the grace period ends, the student's loan returns to an in-school status, i.e., does not enter repayment. Such students, when dropping below half-time enrollment once more, will have a full six-month grace period. If a student has exhausted his or her grace period before returning to school on at least a half-time basis, the student's loans will enter an in-school deferment while enrolled at least half time, but the student will be responsible for immediate repayment once his or her enrollment drops below half-time status. For example, if a student uses three months of her grace period and then reenrolls at half time status or greater, upon terminating enrollment or dropping below half time, the student is eligible for the six months of grace period even though the he or she has previously received three months of grace period.

### **Grace period**

34 CFR 685.207(b) & (c)

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**Prepayment application & prepayment**

34 CFR 685.211(a)

***Holder***

The owner of the loan. In the Direct Loan program, the holder is ED.

***National credit bureau***

A credit bureau with a service area that encompasses more than a single region of the country.

***Origination fee***

A fee paid by a borrower to help defray the cost of making a Direct Loan.

***Payment Application & Prepayment***

When a borrower makes any payment, the payment is credited first toward outstanding fees and collection charges, then outstanding interest, and then outstanding loan principal.

Direct Loan borrowers can prepay at any time without penalty, that is, without paying an additional charge.

When a borrower makes a prepayment that equals or is more than the monthly repayment installment amount, ED treats the excess payment, absent instructions from the borrower, as being intended for future installments. ED will apply the payment to fees or collection charges, interest, and then principal. Then, ED will advance the due date of the next payment and notify the borrower of the new due date for the next payment.

When a borrower makes a prepayment that does not equal or exceed the monthly payment amount, ED does not treat the excess payment as being intended for future installments unless the borrower instructs ED to do so. Regardless, ED will apply the payment to fees or collection charges, interest, and then principal.

***Period of enrollment***

The period for which a Direct Loan is intended. The period of enrollment must coincide with a period established by the school for which institutional charges are generally assessed (e.g. semester, trimester, quarter, length of the student's program or academic year). The period of enrollment is also referred to as the loan period.



## ***Repayment***

A period during which a borrower is obligated to make payments on the loan according to the terms and conditions of the repayment plan the borrower chooses unless the borrower has been granted a deferment or forbearance.

For Direct Subsidized and Unsubsidized Loans, repayment begins the day after the grace period ends. For Direct PLUS Loans, repayment begins the day after the loan is fully disbursed.



# The Direct Loan MPN and the Direct PLUS Loan MPN



## CHAPTER 2

### THE SCHOOL'S ROLE

#### The school and the Direct Loan MPN

To receive a Direct Loan, a borrower must complete and sign a Master Promissory Note (MPN). Note that a borrower who has signed an MPN for Direct Subsidized/Unsubsidized loans will need to sign a separate MPN to receive a Direct PLUS Loan. The MPN is the document that makes a borrower legally responsible for repaying his or her Direct Loans.

Student and parent borrowers can complete and sign an electronic MPN at **StudentLoans.gov**. Most schools have found this web-based process to be the most convenient, timely, and reliable way to complete an MPN, and encourage all of their student borrowers and parent borrowers to file electronically. In fact, almost all of the MPNs submitted in the most recent year were signed electronically.

As the electronic MPN process has become more popular, many schools only use the paper MPN on a contingency basis. That is, the school encourages its borrowers to complete the MPN electronically and only provides the paper MPN upon request. (A Direct Loan borrower cannot be required to complete the MPN electronically.) You may order paper copies of the MPN if your school wants to provide them directly to the borrower.

The Department must have an accepted and linked MPN on file before you disburse any loan funds to the borrower. COD will reject an actual disbursement record if it cannot identify a valid MPN for the borrower.

Another advantage of completing an MPN electronically through **StudentLoans.gov** is that first-time student borrowers can complete their required entrance counseling on the same website as the MPN. We'll talk more about the entrance counseling requirement in chapter 6.

#### Paper MPNs

Copies of the Master Promissory Note are provided to borrowers and schools by the Department. Ordering instructions are on the ED Pubs website at <http://edpubs.ed.gov>.

34 CFR 685.402(f) and definition of master promissory note 34 CFR 685.102

MPN on the Web (eMPN)  
<https://studentloans.gov/>

COD website  
<https://cod.ed.gov/cod/LoginPage>

For your reference, sample copies of the MPN and related materials are available online:  
[www.direct.ed.gov/mpn.html](http://www.direct.ed.gov/mpn.html)

#### Booking a loan

COD will book a loan after it has received:

1. an award record that has been linked to the MPN (identifiers for the borrower match on the MPN and the COD common record),
2. a Master Promissory Note that has been completed and signed by the borrower and accepted and linked by COD,
3. (for Direct PLUS) an accepted credit decision or successfully appealed credit check, and
4. an actual disbursement record (DRI=True).

Note that if there are differences in a borrowers identifying information across the origination record and the MPN, the MPN will not link to the loan that is being disbursed and the disbursement record will be rejected.

If the disbursement date is in the future, the loan will be booked on that future disbursement date.

### Direct PLUS Loan Requests

The online Direct PLUS Loan Request collects information that is needed to submit a Direct PLUS record to the COD system (see chapters 2 and 4). In particular, it gives the borrower the option to request a specific amount to be borrowed. In addition, a parent borrower can specify whether any Direct PLUS credit balance is to be paid to the student or to the parent.

EA 2012-04-05 (Direct Loans)  
EA 2013-04-19 (Direct Loans)  
EA 2013-05-10 (COD)

<http://ifap.ed.gov/ffelvarrates/053113FFELVarInterRatePeriodJuly1June30.html>

### Direct Loan Processing Information - MPNs

EA-2011-16-09 contains information about:

- MPN Basics
- MPN Notifications
- System-generated MPN Acknowledgements
- School Processing Options
- MPN Searches and Reports

## The school and the Direct PLUS Loan MPN

A parent or a graduate/professional student must submit additional information (for example, the loan amount requested) to receive a Direct PLUS Loan. A school can collect this information online by asking student borrowers and parent borrowers to complete the Direct PLUS Loan Request for Supplemental Information (Direct PLUS Loan Request) on the **StudentLoans.gov** website, or it can use its own process to collect the information.

When a borrower submits a Direct PLUS Loan Request online, you can receive the information electronically on a daily basis, or only when you specifically request it. We'll describe how to set up your participation and data options later in this chapter.

## OVERVIEW OF THE MPN

There are two types of MPNs for Direct Loans, one for student borrowers receiving Direct Subsidized/Unsubsidized Loans, and the other for parent borrowers or graduate/professional students who are receiving Direct PLUS Loans.

The MPN collects identifying information for the borrower and the school, such as the borrower's name, SSN, date of birth, address and references. The MPN also contains information on the terms and conditions of the loan(s) that will be made under the MPN, including cancellation provisions, interest, fees, late charges, repayment options, and information about the consequences of default.

### MPN Identification Number

Each MPN has a 21-digit identification number that is similar to the Loan/Award ID, with some key differences:

- the 10th position shows the type of MPN (only 2 types), rather than the loan type indicator.
- the Year Indicator represents the "trailer" in the award year that the MPN was created, as opposed to the award year for the loan (e.g., "13" for the 2012-2013 award year).
- the MPN sequence number will only change if a new MPN is created for that student with that type loan at that school for the same award year.

|                  |  |                   |  |                    |
|------------------|--|-------------------|--|--------------------|
| <b>123456789</b> | <b>M</b>                                 | <b>11</b>         | <b>G99999</b>                                      | <b>001</b>         |
| Student's SSN    | Type of MPN<br>M = Sub/Unsub<br>N = PLUS | Year<br>Indicator | Direct Loan School<br>Code (Begins with<br>G or E) | Sequence<br>Number |

The MPN ID does not change for subsequent loans associated with the MPN—each loan will have its own unique loan/award ID.

The MPN does not include specific details concerning the loans that are to be made under that MPN, such as loan amounts, loan periods, or disbursement dates and amounts. Your school submits this type of loan information to the COD System using the common record or by entering it directly on the COD website (see *Chapter 4*).

## Using the MPN for multiple loans

Because the MPN does not include specific loan information, schools may use a single MPN to make additional loans in subsequent academic years. The option of using the MPN as a multiyear promissory note is available only to schools located in the United States. Students attending foreign schools that participate in the Direct Loan Program are required to complete new MPNs each academic year.

Your school must notify the student or parent borrower of the proposed loan amounts and give the borrower an opportunity to decline the loan or request a lower loan amount. We will discuss this further in the section on the confirmation process later in this chapter.

In general, an MPN expires 10 years after the date that the COD system receives the signed MPN, provided that at least one actual disbursement is made within 12 months of the COD receipt date.

A new MPN will have to be completed if:

1. The borrower does not have a valid Direct Loan MPN on file with the COD System, or
2. All MPNs on file are expired or have been closed by the borrower, or
3. In the case of a Direct PLUS Loan, the most recent Direct PLUS MPN was linked to a loan with an endorser (see “adverse credit history” in chapters 1, 3, and 4).

If a borrower has transferred from another postsecondary school, you can check the borrower’s ISIR or the COD website to see if he or she has a valid MPN on file. (Note that only MPNs linked to booked loans are shown on the ISIR; however, the COD website will show any valid Direct Loan MPN for the student borrower, even if it is not linked to a loan.)

Note that the MPN may be used to make multiple loans within the same academic year. Even schools that are not authorized or choose not to use the multiyear feature of the MPN can make more than one loan under an MPN within the same academic year.

### Expiration of the MPN

An MPN will expire if no disbursement is made within 12 months (1 year) after the date that the COD System receives the MPN. If a disbursement has been made, the MPN will expire 10 years after that date COD received it. A PLUS MPN will expire if the associated PLUS Loan has been linked with an endorser.

### Borrowers who are minors

A student borrower who is a minor (less than 18 years old) may sign an MPN without an endorser or other security. The borrower is legally obligated to repay the loan without regard to any state law that deals with minors taking on debt.

### Power of attorney and completing an MPN

A third party with power of attorney for the borrower may sign the promissory note if the borrower is unable to sign. Use of a power of attorney when signing an MPN limits the use of the MPN to one loan. If the borrower submits his or her MPN through the school, the school must retain a copy of the original power of attorney and submit a copy with the MPN to the loan holder. A photocopy or a fax of the power of attorney is acceptable.

If the note is signed with a power of attorney, the student must authorize the school in writing to credit the loan funds to his or her account at the school. In addition, the school must pay any remaining credit balance to the student.

See *The Federal Student Aid Handbook, Volume 3* for further discussion of ED approval needed to use a power of attorney for disbursements.

### MPN from another school

If a borrower has submitted an MPN listing another school (or schools) and your school is an *MY* school, your school may use that MPN to make loans. The MPN does not have to be updated with your school’s name. (A *SY* school may not use an MPN from another school.)

### Direct PLUS Loan request and confirmation

A parent or a graduate student can submit a request for a Direct PLUS Loan online at **StudentLoans.gov**. This request constitutes active confirmation for a Direct PLUS Loan.

If you are originating a Direct PLUS Loan for a parent borrower who has not completed a Direct PLUS Loan Request online, you will need to collect additional information that is required to process the loan.

In addition, active confirmation is required for PLUS, so the Direct PLUS Loan Request can act as the school's active confirmation. A school can also use the Direct PLUS Loan Request to collect permission to apply loan funds to non-school charges and for a parent borrower to give permission to disburse credit balances to student instead of the parent.

## Choosing not to use the multiyear feature

New schools that are eligible for the MY feature are automatically defaulted to the MY feature in the COD system. Either the school or the borrower may choose not to use the multiyear (MY) feature of the MPN.

When a school decides not to use the MY feature of the MPN, this decision applies to all Direct Loans processed by the school (Direct Subsidized, Direct Unsubsidized, and Direct PLUS). Multiyear schools wishing to become single year schools or single year schools wishing to become multiyear schools must make the request through the COD School Relations Center.

Student loan borrowers may decline to use the multiyear feature of the MPN. Borrowers may also cancel authorization for subsequent loans to be made under an MPN after the first loan is made by notifying the school in writing. Borrowers may send their written notification to their servicer or to their school to forward to COD. The effective date is the date the school, COD, or the servicer receives the written cancellation request. If the borrower cancels the multiyear authorization on a loan that is not completely disbursed, the school may make remaining disbursements on existing loans unless the borrower tells the school to cancel or adjust the disbursements. To obtain additional loans, the borrower will need to complete a new MPN.

## CHOOSING ELECTRONIC PROCESSING

If you want student borrowers and parent borrowers to be able to complete an MPN electronically and submit a Direct PLUS Loan Request on the **StudentLoans.gov** website listing your school, you may need to update your school's options on the COD website (see below). Remember that a borrower retains the option to sign a paper MPN, if he or she chooses.

On the other hand, if you don't want your student borrowers and parent borrowers to be able to sign MPNs electronically, you can change your school's options on the COD website to "N" for MPN participation and/or Direct PLUS Application participation.



## School Options for eMPN and Direct PLUS Loan Requests

Authorized school users can set up the following options on the COD website by going to the *School Options Information page*. If you don't have the necessary authorization to change these options, your school must submit a request to the COD School Relations Center.

### ► eMPN options

- ◆ *eMPN Participation.* Select “Y” to enable students and parents to choose your school from the dropdown menu in Step 1 of the eMPN process.
- ◆ *LOR Required.* You can specify whether you want borrowers to be able to complete the eMPN before you've submitted an origination record. If you select no (N), borrowers at your school can complete an electronic MPN at any time. If you prefer that the MPN not be completed until the borrower is actually enrolled in the school or has accepted a financial aid package, you can select yes (Y). If you select “Y,” a borrower will not be able to select your school's name from the dropdown menu in Step 1 of the eMPN until the COD system has received a loan origination record for that borrower. Note that a student or parent borrower will still be able to complete an eMPN if he or she uses the name of another school that accepts eMPNs at any time.
- ◆ *Multiple Locations.* Schools with multiple locations have the option to select the individual states their school name will appear under for all [www.StudentLoans.gov](http://www.StudentLoans.gov) processes in which the school participates. This option is not Award Year specific. Schools may update this option by visiting the School Options page on the COD website. Additional locations are not able to select multiple states; they inherit their associated state(s) from the associated main school's selections.
- ◆ *Message.* You can include a message to borrowers who are completing an MPN for your school. This can be used to provide specific instructions, deadlines, or next steps that the borrower must take.
- ◆ *School Name.* You can change how your school's name is displayed on the dropdown selection menu on the [StudentLoans.gov](http://StudentLoans.gov) site. This selection will also determine how your name is displayed on the school listing for the Direct PLUS Loan Request, if you choose to participate in the Parent PLUS or Grad PLUS Loan request processes.

### ► Direct PLUS Loan Request options

The Direct PLUS Loan Request Options are found under “Main Campus Information” and are set by the main campus only. The selected options will apply to any additional location associated with that main campus.

#### *Electronic Parent Direct PLUS Request*

- ◆ *Participate—Yes or No* (Default value is *Yes*)
- ◆ *Date Range* (Default value for new schools will be set to the current processing year)
- ◆ *Application Response Option*—School can choose to receive parent Direct PLUS data *Daily* or *On Demand* (Default value is *Daily*)

#### *Electronic Grad Direct PLUS Request*

- ◆ *Participate—Yes or No* (Default value is *Yes*)
- ◆ *Date Range* (Default value for new schools will be set to the current processing year)
- ◆ *Application Response Option*—School can choose to receive Grad Direct PLUS data *Daily* or *On Demand* (Default value is *Daily*)

**StudentLoans.gov**

The U.S. Department of Education created **StudentLoans.gov** to provide borrowers with a single point of contact for completing the required documents to apply for and manage federal student loans through the Direct Loan Program. **StudentLoans.gov** not only provides information on the Direct Loan Program, it also provides information, tools and resources regarding other Federal Student Aid Programs..

**MPNs printed by school software**

School may choose to have their software print the entire MPN or they can use software that only prints the variable data on a pre-printed form available through FSAPubs.

Schools that choose to program their software to print the entire MPN must have the MPN approved through the process described below.

Note that you may add a bar code (used by some schools for internal tracking purposes) without pre-approval by ED. However, the bar code cannot be placed in the bottom margin of the MPN, which is reserved for the Department's use.

If your school chooses to program its own software to print MPN forms, the Department must review and approve a sample MPN generated by the software before a school can use it. The MPN that a school sends to the Department for approval must be an original and must include sample data.

Schools requesting approval for MPNs printed by institutionally or privately developed software must send an original (not photocopied or faxed copy) with sample data to:

**U.S. Department of Education**  
**ATTN: MPN Testing**  
**P.O. Box 5691**  
**Montgomery, AL 36103**

**Advantages of the electronic MPN**

The electronic MPN can greatly speed up the loan process by enabling the borrower to electronically sign and submit the MPN online. There is no time lost while the MPN is in the mail, and processing is almost instantaneous.

Another advantage is the structure of the electronic MPN, which presents information to borrowers in four steps, encouraging the borrower to closely examine the loan document. To reinforce the importance of understanding the terms and conditions of the loan, the electronic MPN asks the student to affirmatively respond after reading the Borrower's Rights and Responsibilities Statement and the MPN Addendum (if applicable).

The electronic MPN also greatly simplifies the loan process for your school because it automatically delivers the MPN to the COD System. You don't have to prepare manifests or deal with possible batch discrepancies when submitting multiple MPNs to COD by mail.

**CONFIRMATION FOR SUBSEQUENT LOANS**

Your school must have a confirmation process to ensure that the borrower wants loans for a subsequent academic year that are awarded under a previously signed MPN. You may use either an active or passive confirmation process for Direct Subsidized and Unsubsidized Loans.

- ♦ *Active confirmation* — the school does not disburse the loan until the borrower either takes a positive action to accept the proposed loan type and amount or requests changes to the proposed loan package.
- ♦ *Passive confirmation* — the school does not disburse the loan until the borrower is notified of the proposed loan package and the time given to the borrower to respond has elapsed. The borrower only needs to take action if he or she wants to decline the loan or make adjustments to the type or amount of the loan.

Your school must use an active confirmation process for subsequent Direct PLUS Loans made under an existing MPN. (Note that completion of the Direct PLUS Loan Request at **StudentLoans.gov** constitutes active confirmation because the borrower enters a requested loan amount.)

The confirmation process may be part of the required notices and disclosures that already exist, or it may be a separate process that supplements those notices and disclosures. For example, your school's award letter (sent as part of the General Notification Requirements described in *Volume 5*) may be used as part of either an active or passive confirmation process. For active confirmation, the borrower would be

asked to confirm the loan amount offered by responding to your school's offer. For passive confirmation, the borrower would be asked to respond only if he or she wanted to cancel or reduce the loan amount offered.

In the case of Direct PLUS Loans, if your school is using a separate school-developed Direct PLUS Loan request form that includes a requested loan amount, the submission of the form can serve as "active confirmation" that the borrower wants to take out that loan amount.

Generally, schools should use the same confirmation process for all borrowers. However, in some cases, a school may want to establish more than one confirmation process to accommodate existing administrative procedures, or because the school believes that it can best inform borrowers of their loan obligations if it uses different confirmation processes for different groups of students. For example, a school could have a policy that requires active confirmation for undergraduate students and passive confirmation for graduate students.

## USING PAPER MPNS

In the case of the paper MPN, you may print them for students or use paper MPNs ordered from FSA Pubs. Students can also go directly to the [StudentLoans.gov](http://StudentLoans.gov) website and download a blank paper MPN or log in and download a partially completed paper MPN.

### MPN printing options

If you want to provide MPNs to borrowers at your school, you can provide MPNs supplied by FSA Pubs or you can print them at your school. You can order Direct Loan and other documents from FSA Pubs at

<http://www.fsapubs.gov/app/Search/ElectronicCatalog.aspx?Type=MPN>

### Providing MPNs from FSA Pubs

There are two types of MPNs available from FSA Pubs:

1. *An MPN with no pre-printed data to the borrower*—you may order copies of the "MPN with data labels" from FSAPubs.
2. *An MPN with pre-printed borrower data to the borrower*—you may order copies of the "MPN without data labels" from FSA-Pubs. The MPN without data labels is for schools that use EDEXpress or other software that prints data labels (such as "Name" and "Address") on the MPN.

### Ordering MPNs from the Department

MPNs can be ordered at FSA Pubs ([www.fsapubs.gov](http://www.fsapubs.gov)) at no charge. If you plan to send MPNs to borrowers with preprinted information from your system, be sure to order "MPNs without data labels," as shown below.

#### MPN without data labels

| SECTION A: BORROWER INFORMATION |
|---------------------------------|
|                                 |
|                                 |
|                                 |
|                                 |
|                                 |
|                                 |

#### MPN with data labels

| SECTION A: BORROWER INFORMATION   |
|-----------------------------------|
| 1. Driver's License State and No. |
|                                   |
| 3. E-mail Address (optional)      |
|                                   |
| 4. Name and Address               |
|                                   |

**MPN processing center addresses****Overnight, Express, or Certified Mail**

Department of Education  
100 Capitol Commerce Blvd.  
Suite 160  
Montgomery, AL 36117\*

**Regular Mail:**

U.S. Department of Education  
P.O. Box 5692  
Montgomery, AL 36103\*

\* Note that regular mail goes to a different zip code than overnight, express, or certified mail.

If a **school** has a question about an MPN, the school calls the **COD School Relations Center** at:

**1-800-848-0978**

If **students** have questions about their MPN they should call **COD Student Loan Support Center** at:

**1-800-557-7394**

**Providing MPNs printed at your school**

Use your school's software to print a complete MPN with pre-printed borrower data and provide it to the borrower. The school may not change the format or wording of the MPN. (See sidebar earlier on required ED approval of the school MPN.)

If your school wishes to print MPNs for some students at the *Individual record level*, you should indicate that in the field for the "Promissory Note Print Code" in the student's origination record. Select Promissory Note Print Code choice "O" when you are sending in an origination record.

Sending this code with the origination will override the school-level option. If you decide to help an individual student fill out the MPN on-the-spot, you can submit an "O" in the student's award record.

**The following statuses apply to MPNs:**

| Status   | Reason   |
|--|--|
| Pending ( <b>P</b> )   | No loans have linked to the MPN and the expiration date is in the future. Loans may link to the MPN.   |
| Active ( <b>A</b> ) (Shown on COD as Accepted)   | <p>A loan has linked to the MPN and the MPN expiration date is in the future. Additional loans may link to the MPN.</p> <p>Any of the following:</p> <ul style="list-style-type: none"> <li>■ The expiration date is in the past. Loans may still link to the MPN if the award date is before the expiration date.</li> <li>■ One or more loans were discharged due to: <ul style="list-style-type: none"> <li>• Death (all MPNs are inactive,</li> <li>• Unauthorized Signature (MPN linked to discharged loan only), or</li> <li>• False Certification/Identity Theft (MPN linked to discharged loan only).</li> </ul> </li> </ul> |
| Closed ( <b>C</b> )  | The borrower requests that no new loans be made under the MPN.   |
| Inactive due to the linking of a PLUS Loan with an endorser ( <b>E</b> ) (Direct PLUS Loan only) | <p>For all new loans, an endorser is obtained</p> <ul style="list-style-type: none"> <li>■ All Direct PLUS MPNs received before the endorser was obtained are inactive.</li> <li>■ A new Direct PLUS MPN is required for all future loans.</li> </ul>  |

## Sending the MPN to the borrower

If your school will be sending the MPN to the borrower, it is helpful to include a cover note explaining how soon the MPN must be returned and reminding the borrower not to alter the MPN, to write legibly in blue or black ink, and to return the MPN with an original signature (see “MPN acceptance guidelines,” below). Do not cover any of the text or information fields with a date stamp or school stamp, and do not use “highlighters” to indicate fields that need to be filled out, as this may interfere with the scanning of the MPN.

After the borrower signs the MPN, the borrower can return the MPN to the school or mail it directly to the Department.

- ◆ If you intend for the borrower to mail the MPN directly to the Department, you should explain this clearly in the cover note when you send the MPN to the borrower.
- ◆ If you expect the borrower to return the MPN to your office for submission to the Department, the cover note should specify the timeframe for the borrower to return the signed MPN.

## Reviewing paper MPNs prior to submission to the Department

Your office should have a thorough review procedure to be sure that the MPNs are properly completed and signed to avoid processing delays.

### MPN acceptance guidelines

To help ensure that COD accepts MPNs from your borrowers, make sure that:

- the MPN was completed in blue or black ink.
- the MPN has an original signature. (Signatures must not be faxed, stamped, photocopied, or signed in pencil.)
- the borrower has not altered the signature or the text of the MPN
- hand-written data on the MPN is legible.
- all pre-printed legal text and borrower-entered information is readable and is not obstructed by a school stamp or date stamp (do not use “highlighters” to indicate fields on the MPN, as the highlighter color makes the document difficult to scan).
- the legal text is printed on the reverse or subsequent pages of the MPN if using the downloadable version of an MPN.

### Format for loan manifest

The manifest must be in a specific format. The DL module of EDEExpress has a feature that enables you to print out an acceptable manifest.

If you are using institutionally or privately developed software, you must be sure that the manifests follow the specifications published in Volume VI, Section 7 of the *COD Technical Reference*.

### MPN information on DL website

See the *Aid Professionals* area on the Direct Loan website ([www.direct.ed.gov](http://www.direct.ed.gov)) for the latest information on which MPNs and loan documents to order.

## Submitting paper MPNs to the MPN Processing Center

After checking to make sure that the MPN has been correctly completed and is signed, forward it to the MPN processing center. The Department recommends that schools send MPN batches to the Department by certified mail (return receipt requested) or by express mail service. This provides schools with a way to track down batches.

Your school is not required to keep copies of MPNs. However, you may want to keep copies on hand until they are accepted. Schools do not have responsibility for MPNs after they are accepted in the COD system.

With each shipment (batch) of MPNs, you must include a hard-copy (paper) manifest that lists the borrowers' names and MPN ID numbers for each MPN in the batch. The manifest also has a certification statement to be signed by the appropriate school official attesting to what is being submitted.

MPNs for Direct Subsidized and Unsubsidized Loans must be batched separately from the MPNs for Direct PLUS Loans, with a separate MPN manifest for each batch. MPNs should be batched in groups, but of no more than 100.

Separate MPN batches and manifests are also required for each Direct Loan school code at a school. For example, one school may have different school codes for branch campuses or programs, such as law and medicine.

## How the Department reviews and processes paper MPNs

The Department will review all paper MPNs to ensure they are properly completed and signed in order for them to be legally binding documents that require borrowers to repay their Direct Loans.

When the Department receives a batch submission of MPNs from a school, it compares the MPNs in the batch with the listing on the manifest, and then signs the manifest and returns it to the school.

If there are discrepancies, the Department will note them on the manifest. For example, an MPN that is in the batch might not be listed on the manifest, in which case the MPN is returned to the school with the manifest.

The Department also reviews each individual MPN that it receives, and accepts or returns it. If accepted, the MPN will be imaged and the MPN data will be sent to the COD system. COD will send MPN acknowledgments to schools for any MPN that it accepts.



## Returned MPNs

If the MPN has missing items or contains mistakes, the Department will return it for correction to the school or borrower, depending on who sent the MPN.

If the Department returns an MPN to your school, the shipping manifest is annotated to reflect the reason it was returned (for example, no signature).

Corrections can often be made directly on the MPN that has been returned by the Department, although a borrower may have to initial the changes. The borrower may cross out any error that he/she has made when filling out the MPN, correct it, and initial the correction; and return the properly completed and signed MPN to the school or the Department.

## MPN LINKING AND MPN RESPONSES

Once the COD system receives and accepts the MPN data, it will try to link that MPN with a loan origination record that has been submitted for the borrower. If the borrower has filed more than one MPN, COD will link the loan to the MPN with the latest expiration date.

If COD cannot locate an origination record for the borrower, it will hold the MPN in a pending status, waiting to be linked to an origination record. If you're sure that you've submitted an origination record for the student but the MPN is still in Pending status, check to see if the origination record has failed to link because its Person Identifier information (see box on the next page) doesn't match with the MPN.

COD will keep the MPN on file as "pending" until it receives and links a corresponding origination record or the MPN expires.

## MPN Responses

The COD System sends MPN responses to all schools associated with an MPN. A school is associated with an MPN when it has a loan linked to that MPN or it is the school specified on the MPN.

**A** – Accepted MPNs. No action needed.

**P** – Pending. MPN accepted, but COD has not received an origination record for the student. No action is required, but you should check if you believe that you have already sent an origination record.

**R** – MPN not on file.

**C** – MPN is closed.

**E** – Inactive due to the linking of a PLUS Loan with an endorser.

### Checking award records for "Pending" MPNs

If the MPN Response or COD Web site lists the MPN as pending but you believe that the award record was already submitted for that borrower, you may want to find out what happened to the award record.

For example:

- Did your office send the award record to the COD system?
- Did the COD system reject the award record?
- Was a rejected award record corrected and sent as a change record to the COD system?

### MPN responses

Both the Common Record Response (CRAAyyOP) and the MPN Response (CRPNyyOP) can contain the MPN status determined by the COD System for a loan record.

The COD System returns a Response complex element with a Response Code of A (Accepted), R (Rejected), or C (Corrected).

The ISIR value response business rule is A = Active MPN

## Person Identifier information used to link loans

For Direct Subsidized and Unsubsidized Loans, the COD system will link a valid MPN using the borrower's Current SSN, Date of Birth, and first two characters of the first name.

For Direct PLUS Loans, the COD System will link a valid MPN using all of the following data elements:

- Current borrower SSN
- Borrower Date of Birth
- First two characters of the borrower's first name
- Accepted credit decision\*
- Current student SSN
- Student Date of Birth
- First two characters of the student's first name

If the single-year feature is being used, additional items must match for COD to link a loan to the MPN: the Direct Loan School Code and the academic year start/end dates.

\*An accepted credit decision must be on file for the Direct PLUS award or it will not link, even if there is a valid MPN on file. More detail about the credit decision process is found in chapters 3 and 4.

### Use of Person Identifier information to link loans to MPNs

An accepted loan origination record and valid MPN will not link if the Person Identifier information differs on the award and MPN.

Schools should encourage borrowers to list the same Person Identifier information (i.e., complete formal name) used to file the Free Application for Federal Student Aid (FAFSA) on applications for all types of financial aid.

## System-generated MPN responses

A system-generated MPN response (MPN Acknowledgement) is triggered by:

- ♦ New MPN.
- ♦ Change in MPN expiration date
- ♦ Change in MPN status

This response may be sent to more than one school if the MPN was created at one school (or the student chose the school when completing the MPN on **StudentLoans.gov**, but the student ended up receiving a loan at another school. In this case, the school whose loan linked to the MPN will also be sent a response about the MPN status and expiration date.

COD does not send MPN responses for MPNs that are returned for correction.

# Direct Loan Awards and Loan Periods



## CHAPTER 3

*The rules for awarding Direct Loans are different than for Pell Grants and other FSA programs. For Direct Subsidized/Unsubsidized Loans, there are annual loan limits that vary by grade level, and aggregate limits on the total (cumulative) loan amount that may be outstanding at one time. Also, the loan period, payment period, and the disbursements within that period may not always correspond to the payment periods that you're using for Pell Grants. Finally, the requirement to prorate Direct Subsidized/Unsubsidized Loan limits under certain circumstances is different than the requirements for calculating Pell Grants.*

### OVERVIEW OF DIRECT LOAN DATA

The data that your school must include when originating a Direct Loan must include the total amount of the loan, the loan period, and the amounts of the individual loan disbursements.

Factors that limit amount of a Direct Subsidized/Unsubsidized Loan a student may receive include the:

1. annual loan limit, which varies depending on
  - whether a borrower is an undergraduate or a student in a graduate or professional program, and
  - for undergraduates, the borrower's year in school and dependency status;
2. aggregate loan limit, which varies depending on whether a borrower is an undergraduate or a student in a graduate or professional program; and
3. student's financial need (for Direct Subsidized Loans; see *The Federal Student Aid Handbook, Volume 3* for a discussion of cost of attendance and packaging.)

Annual and aggregate loan limits apply to Direct Loan Subsidized and Unsubsidized Loans but not to Direct PLUS Loans.

Packaging ensures that the borrower's total aid award does not exceed the borrower's financial need, based on cost of education. Packaging applies to Direct PLUS Loans as well as to Direct Loan Subsidized and Unsubsidized Loans.

The resulting award amount will usually be divided into two or more payments for the period of the loan. The amounts of these individual disbursements will be reported to COD, along with the actual or anticipated disbursement dates.

#### Originating a loan

A financial aid administrator should be aware of the responsibility incurred in originating a loan. Schools that originate loans for ineligible borrowers, or for loan amounts that exceed loan limits or the borrower's need are subject to administrative actions such as a fine, limitation, suspension and termination, as well as liabilities for the loan itself including any associated costs. A school may not originate a loan for a period that includes a portion of an academic year in which the student is no longer enrolled (regardless of whether a student has ceased attendance or advanced to the next academic year).

#### Reporting and record keeping

The total loan amount awarded for the loan period is reported to COD as the Award Amount Requested. The information used for packaging awards (student's cost of attendance, EFC, and estimated financial assistance) is not reported to the COD system. However, a school must keep this information, as well as any other information related to the borrower's eligibility, for three years after the end of the award year in which the student last attended.

## Direct Loan Data Reported to COD

This example shows the types of information that a school would report to COD for a Direct Subsidized Loan made to a first-year dependent student who is enrolled for a full academic year that runs from September to May and has two semesters/trimesters or two non-term payment periods.

### Award Data

Award Amount Requested: \$3,500  
 Award Start Date: Sep. 7, 2012  
 Award End Date: May 15, 2013  
 Academic Start Date: Sep. 7, 2012  
 Academic End Date: May 15, 2013

### Disbursement Data

Disbursement Number: 1  
 Gross Amount: \$1,750  
 Disbursement Date: Sep. 20, 2012  
 Disbursement Number: 2  
 Gross Amount: \$1,750  
 Disbursement Date: Jan. 12, 2013

### Refusing to originate a loan or originating for less than maximum eligibility

HEA Sec. 479(A)(c), 34 CFR 685.301(a)(8), DCL GEN-11-07

On a case-by-case basis, you may refuse to originate the loan for an individual borrower or you may originate a loan for an amount less than the borrower's maximum eligibility. However, you may NOT limit borrowing by students or parents on an across-the-board or categorical basis. You must ensure that these decisions are made on a case-by-case basis and do not constitute a pattern or practice that denies access to borrowers because of race, sex, color, income, religion, national origin, age, or handicapped status. Also note that your school cannot engage in a practice of originating Direct Loans only in the amount needed to cover the school charges or limiting unsubsidized Direct Loan borrowing by independent students. When you make a decision not to originate a loan or to reduce the amount of the loan, you must document the reasons and provide the explanation to the student in writing.

To request Direct Loan funds for a borrower, a school must certify that the borrower is eligible for the loan award and must provide specific amounts and dates for each disbursement of the loan award.

A borrower's eligibility for a Direct Loan is calculated differently than for a Pell Grant. There are no fixed tables such as the Pell Grant Payment and Disbursement Schedules that determine award amounts. Direct Subsidized/Unsubsidized Loans have annual and aggregate limits that are the same for all borrowers at a given grade level and dependency status. In general, you may not originate a loan for more than the:

- ♦ amount the borrower requests,
- ♦ borrower's cost of attendance (see *The Federal Student Aid Handbook, Volume 3*),
- ♦ borrower's maximum borrowing limit as described in this chapter), or
- ♦ borrower's unmet financial need (as determined using the rules in *The Federal Student Aid Handbook, Volume 3*).

For Direct Loans, the loan origination record is sent electronically to the Common Origination and Disbursement system (COD). The school's origination includes the borrower's grade level, loan period, anticipated disbursement dates, and the amounts of the anticipated or actual disbursements (using the rules described in this chapter).

## Checklist for Loan Origination

For all Direct Loans, you must document a student's cost of attendance, expected family contribution (EFC), and estimated financial assistance in the student's file. This information must be made available to the Department upon request. A school must also confirm that the borrower meets the definition of eligible borrower by doing the following:

- For parents applying for a Direct PLUS Loan, ensuring the student has completed a FAFSA and the parent is eligible to borrow;
- Determining that a student (for a Parent PLUS Loan) or borrower (for a Direct Subsidized or Unsubsidized Loan) meets the eligibility requirements (see *The Federal Student Aid Handbook, Volume 1*);
- Reviewing the NSLDS information on the ISIR to ensure that the student or borrower is not in default and does not owe an overpayment on an FSA grant or loan (See *Volume 5*) and will not exceed the annual or aggregate loan limits (as described in this chapter);
- Ensuring that the amount of the loan, in combination with other aid, will not exceed the borrower's financial need (see *The*
- Ensuring that the loan disbursement dates meet cash management and disbursement requirements.
- Determining a borrower's Pell Grant eligibility and, if eligible, including the grant in the student's aid package;
- For an Direct Unsubsidized Loan, first determining a borrower's eligibility for a Direct Subsidized Direct Loan;
- Ensuring that the amount of the loan will not exceed a borrower's annual or aggregate loan limit; and
- Prorating the annual loan limit for an undergraduate enrolled in a program or remaining period of study that is shorter than an academic year (as described in this chapter).

## LOAN PERIODS, ACADEMIC TERMS, AND PROGRAM LENGTH

It's important to define the loan period (sometimes referred to as the *period of enrollment*) at the outset because the length of the loan period will determine the timing and amount of disbursements. This discussion assumes that your school has already established its academic measurements. If you have not already done so, see *The Federal Student Aid Handbook, Volume 2* for a discussion of eligible programs, academic years, payment periods, and conversion of clock hours/credit hours.

Generally, if a credit-hour program uses standard terms (semesters, trimesters, or quarters), or has nonstandard terms that are substantially equal in length, with each term at least nine weeks in length (see "SE9EW" sidebar on next page), the *minimum* loan period is a single academic term.

As an example, if a borrower will be enrolled in the fall semester only and will skip the spring semester, you may originate a loan for that term alone. (Remember, however, that the loan amount must be based on the reduced costs and EFC for that term rather than for the full academic year.)

### Period of enrollment (loan period)

The period of enrollment for which a Direct Loan is intended must coincide with an academic period established by the school for which institutional charges are generally assessed (e.g., semester, trimester, quarter, length of the student's program, or academic year). The period of enrollment is also referred to as the loan period.

34 CFR 685.102(b)



### Minimum and maximum loan periods

- *Maximum* is generally the school's academic year. In some cases, the loan period may be longer than an academic year if the loan is for the length of a program that is longer than an academic year and the school applies the annual loan limit to that longer period.
- *Minimum* (standard term programs and SE9W programs) = one academic term.
- Minimum (all other programs, i.e. clock hour, non-term, and other nonstandard term), lesser of the academic year, the student's program, the remaining portion of the program, or the remaining portion of an academic year. These loan periods also apply to programs that are a mixture of standard terms and nonstandard terms not offered in a traditional academic calendar.

34 CFR 685.301(a)(9)

### Nonstandard "SE9W" Terms

If a credit-hour program has nonstandard terms, the terms are substantially equal in length, and each term is at least nine weeks of instructional time in length, then the terms, for annual loan limit progression purposes, are referred to throughout this chapter as "SE9W."

The length of terms is measured in weeks of instructional time, as defined in *The Federal Student Aid Handbook, Volume 3*. Nonstandard terms are substantially equal if no term in the loan period is more than two weeks of instructional time longer than any other term in that loan period.

A nonstandard program with SE9W terms may use an SAY if it has a fixed academic calendar comparable to a traditional academic calendar (i.e., terms that start at about the same time each year, where two or more nonstandard terms normally make up the academic year in the fall through spring).

For all other programs, including clock-hour and non-term credit-hour programs, the minimum loan period is the lesser of:

- ♦ the academic year as defined by the school (see *The Federal Student Aid Handbook, Volume 3*);
- ♦ the length of the borrower's program (if the program is shorter than an academic year); or
- ♦ the remaining portion of the program (if the remaining portion of the borrower's program is less than an academic year).

Also, for these other programs, you may originate a loan for the remaining portion of the academic year if:

- ♦ a borrower transfers into the school with credit or clock-hours from another school, and the prior school originated a loan for a period of enrollment that overlaps the period of enrollment at the new school, or
- ♦ a borrower completes a program at a school, where the borrower's last loan to complete that program had been for less than an academic year, and the borrower then begins a new program at the same school.

In either of these cases, the loan amount must not exceed the remaining balance of the borrower's annual loan limit at the loan level associated with the new program.

For all programs, the maximum loan period is generally the school's academic year. However, you can have more than one loan in an academic year up to the annual loan limit.

### Direct Loans at multiple schools

Unlike Pell Grants, it is possible for a borrower who is separately enrolled and eligible at multiple schools to get a Direct Subsidized/Unsubsidized Loan (and for a graduate/professional borrower or parent to receive a Direct PLUS Loan) at more than one school for the same period. The schools that the borrower is attending are responsible for coordinating to make sure that the total amount of the loans the borrower receives does not exceed the applicable annual loan limit. In addition, the schools must ensure that there is no duplication of noninstitutional costs when determining the borrower's cost of attendance. (Note that in this case, which is different than the consortium arrangements discussed in *Volume 2*, loan funds awarded at one school are not to be included as estimated financial assistance by any other school the borrower is attending when determining the borrower's loan eligibility for the same period.)

## LOAN LIMITS

### Aggregate loan limits

A borrower who has reached his or her aggregate borrowing limit may not receive additional loans. Once the loans are repaid, in full or in part, the borrower may apply for additional Direct Loans. The maximum outstanding total Direct Subsidized and Direct Unsubsidized debt is:

- ◆ \$31,000 for a dependent undergraduate borrower. No more than \$23,000 of this amount may be in the form of Direct Subsidized Loans.
- ◆ \$57,500 for an independent undergraduate borrower (or a dependent undergraduate borrower whose parents do not qualify for Direct PLUS Loans). No more than \$23,000 of this aggregate amount may be in the form of Direct Subsidized Loans.
- ◆ \$138,500 for a graduate or professional borrower (including loans for undergraduate study). No more than \$65,500 of this aggregate amount may be in the form of Direct Subsidized Loans.

The loan amounts counted towards these maximums include any outstanding amounts borrowed in the form of Direct Subsidized/Unsubsidized Loans as well as subsidized and unsubsidized Federal Stafford Loan amounts previously borrowed under the Federal Family Education Loan (FFEL) Program prior to July 1, 2010. In the case of a Direct Consolidation Loan (or a FFEL Consolidation Loan made before July 1, 2010), the outstanding amount of the Consolidation Loan representing any underlying Direct Subsidized/Unsubsidized Loans or Subsidized/Unsubsidized Federal Stafford Loans that were paid off by the Consolidation Loan is counted towards the aggregate Direct Loan limits.

### Checking loan amounts on NSLDS

If a borrower at your school has FSA loans that were received at other schools, you may need to check the National Student Loan Data System (NSLDS) website site to make sure the borrower still has remaining eligibility under the aggregate loan limits.

As long as there is no conflicting information, you may rely on the financial aid history (provided on the ISIR as well as the NSLDS website) and the Transfer Borrower Monitoring process to tell you if a borrower is about to exceed the aggregate Direct Loan limits. (The NSLDS financial aid history may affect eligibility for other FSA programs, so it is discussed in more detail in the *Federal Student Aid Handbook, Volume 1*.)

The aggregate loan limits do not include accrued or capitalized interest or other charges. To avoid counting interest and other charges when determining a borrower's remaining loan eligibility using NSLDS, use the *aggregate outstanding principal balance (Agg. OPB)* shown in NSLDS for each of the borrower's outstanding Direct Loans.

### NSLDS on the Web

You can review the complete student loan history for your students and generate reports on the NSLDS Professional Access website:

<https://www.nslsdfap.ed.gov/>

### Treatment of consolidated Perkins Loans

A consolidated Perkins Loan is not counted toward the aggregate Direct Loan limits.



For instance, suppose a borrower has a Direct Unsubsidized Loan disbursed in the amount of \$5,000. Over time, \$200 in interest accrues and is capitalized. The total outstanding balance on the loan will be \$5,200, and the aggregate outstanding principal balance will be \$5,000. It is the last figure, the aggregate outstanding principal balance—as displayed in the borrower’s NSLDS Loan Detail—that you should use to determine remaining loan eligibility under the aggregate loan limits.

For Consolidation Loans (both Direct Consolidation Loans and Federal Consolidation Loans made under the FFEL Program), which may include Direct Subsidized/Unsubsidized Loans and Subsidized/Unsubsidized Federal Stafford Loans, NSLDS will now show separate totals for the Subsidized Agg OPB and Unsubsidized Agg OPB. In addition, NSLDS will show a total for “Unallocated” loan amounts for loans that cannot be identified. You are not responsible for reviewing these Unallocated loans to determine their origin.

### *Effect of change in borrower status on aggregate loan limits*

In some cases, a borrower may qualify for higher loan limits but then lose the eligibility for the higher limits. This situation could occur because a dependent borrower’s parent received a Direct PLUS Loan after having been denied in previous years, and the borrower therefore could no longer borrow at the independent borrower loan levels, or because a borrower with a graduate degree entered an undergraduate degree program. In these cases, you only count the loan amounts that the borrower would have received under his or her current eligibility as an undergraduate or dependent borrower against the applicable undergraduate aggregate loan limit.

The NSLDS website displays undergraduate and graduate aggregate amounts in the Aggregate Loan Information section for subsidized, unsubsidized, combined, and unallocated portions of consolidated loans. The undergraduate aggregate section will display only if the borrower has undergraduate loans, and the graduate aggregate section will display only if the borrower has graduate loans.

Also, on the NSLDS website, the Exceeds Loan Limits warning symbols provide automatic filters to display the Loan Summary list on the Loan History web page to show those loans that were attributed to the applicable loan limit overage. These website tools will assist with separating undergraduate, graduate, and overall loan totals and will aid in eligibility determinations.

### Example: Consolidation and Direct Loan Limits

An independent student who previously completed an undergraduate program at a different school enrolls at your school to earn a second undergraduate degree. She is granted credit for three years of previous study. The student applies for a Direct Loan for her new senior year and has financial need for the maximum annual loan amount (\$5,500 in Direct Subsidized Loan funds and \$7,000 in Direct Unsubsidized Loan funds).

The student's loan record on NSLDS shows that she has a Subsidized Agg OPB of \$17,000. Therefore, the student has a remaining subsidized eligibility of \$6,000 (\$23,000— \$17,000).

NSLDS also shows that the student has Unsubsidized Agg OPB of \$19,000. When you add the unsubsidized and unsubsidized OPBs, you find that the student has a Total Agg OPB of \$36,000.

After awarding the student a Direct Subsidized Loan of \$5,500, her Total Agg OPB will be \$41,500 (\$36,000 + \$5,500). Therefore, you can also award the student a Direct Unsubsidized Loan of \$7,000 without exceeding the combined subsidized/unsubsidized aggregate loan limit of \$57,500 for independent undergraduates.

### Example: Aggregate Loan Limits with Additional Direct Unsubsidized Loans When Parents Are Denied Direct PLUS

A dependent student is treated as an independent student for loan limit purposes and receives additional unsubsidized loan funds (up to the additional amounts available to independent undergraduates) for the first three years at your school because a parent was denied a Direct PLUS Loan for each of those years:

1st year (independent student loan limit) = \$9,500 (maximum \$3,500 subsidized)

2nd year (independent student loan limit) = \$10,500 (maximum \$4,500 subsidized)

3rd year (independent student loan limit) = \$12,500 (maximum \$5,500 subsidized)

For each of the first three years, the student receives the maximum subsidized amount and the maximum additional unsubsidized amount. In the 4th year, the parent is eligible for a Direct PLUS Loan, so the student is then subject to the annual and aggregate loan limits for a dependent undergraduate. Although it might appear that the student would have no remaining loan eligibility for year 4 because the total amount received for years 1-3 exceeds the \$31,000 dependent undergraduate aggregate loan limit, the additional Direct Unsubsidized Loan amount that the student received as a result of the parent PLUS denials in the first three years of the undergraduate program does not count against the \$31,000 dependent aggregate limit.

The student received a total of \$19,000 in additional Direct Unsubsidized Loan funds for the first three years (\$6,000 each in years 1 and 2, and \$7,000 in year 3). Of this total additional unsubsidized amount, the student would have been eligible to receive \$6,000 (\$2,000 each year) as a dependent undergraduate if the student's parent had qualified for a Direct PLUS Loan. The extra \$13,000 in unsubsidized funds the student received as a result of the parent being unable to obtain a Direct PLUS Loan for the first three years (\$4,000 in years 1 and 2, and \$5,000 in year 3) is not counted against the \$31,000 dependent undergraduate aggregate when determining the student's loan eligibility for year 4. Excluding this amount, only \$19,500 of the total \$32,500 the student received for the first three years counts against the \$31,000 dependent undergraduate aggregate loan limit. This means that for year 4 the student is eligible to receive up to the full annual loan limit for a dependent undergraduate:

4th year (dependent student loan limit) = \$7,500 (maximum \$5,500 subsidized)

## Financial Aid History Requirement and NSLDS

To ensure that a borrower doesn't exceed the annual and aggregate Direct Loan limits, the student's FAFSA data is matched with the National Student Loan Data System, and the student's loan history is included in the ISIR. If a student transfers to your school, you must inform NSLDS so that it can begin the Transfer Student Monitoring process. More detailed information on how this requirement applies to all of the FSA programs can be found in *The Federal Student Aid Handbook, Volume 1*. You can review the complete student loan history for your students and generate reports on the NSLDS Professional Access website:

**NSLDS:** <https://www.nslsdfap.ed.gov/>

Once the student is enrolled in Transfer Monitoring, NSLDS will alert you to any relevant changes in the transfer student's financial aid history—other than the default and overpayment information reported in the post-screening process—that may affect the student's current award(s).

As long as there is no conflicting information, you may rely on the financial aid history (provided on the ISIR as well as the NSLDS website) and the Transfer Student Monitoring process to tell you if a student is about to exceed the Direct Subsidized or Unsubsidized Loan limits.

- If you need to research the student's loan history on NSLDS, *The Federal Student Aid Handbook, Volume 3* provides more information on how to count the Aggregate Outstanding Principal Balance on a loan, and how to identify the underlying loans in a consolidation loan.
  - Guides for Enrollment Reporting, Transfer Student Monitoring and other user documentation are currently posted on IFAP under "Current FSA Publications" or "Online References."
  - Information on OPB and Agg OPB in NSLDS are available on IFAP in the following NSLDS Newsletters.
    - Newsletter 6 at <http://ifap.ed.gov/nslsdsmaterials/attachments/Newsletter6.pdf>
    - Newsletter 9 at <http://ifap.ed.gov/nslsdsmaterials/attachments/Newsletter9.pdf>
    - Newsletter 11 at <http://ifap.ed.gov/nslsdsmaterials/attachments/Newsletter11.pdf>
    - Newsletter 41 at <http://ifap.ed.gov/nslsdsmaterials/attachments/NSLDSNewsletter41.pdf>
- and in EA 2012-8-13 at

<http://www.ifap.ed.gov/eannouncements/081312NSLDSenhancedFormulaForUnsubAggregateLoanLimitAmt.html>

Technical assistance for NSLDS is available at: **1-800-999-8219**

### Resolving negative information in NSLDS

If you can document that the student is eligible for FSA funds despite the information shown on NSLDS, you may award and disburse aid. An example would be if the NSLDS Financial Aid History page of the SAR or ISIR shows that the student has a defaulted loan, but you have obtained documentation from the holder of the loan that the borrower had made "satisfactory arrangements to repay."

GEN-96-13, Q&A 37

### NSLDS guides & help center

Guides for Enrollment Reporting, Transfer Student Monitoring and other user documentation are currently posted on IFAP under "Processing Resources or NSLDS Reference Materials."

You should also see NSLDS Newsletters 6, 9, 11, 17, and 23 on IFAP for more specific information on how the OPB and Agg OPB are calculated and displayed on NSLDS.

**Annual Limits for Sub/Unsub Loans**

|  | <i>Subsidized</i> | <i>Total (subsidized &amp; unsubsidized)</i> |
|--|-------------------|--|
| <b>Dependent Undergraduates (excluding dependent students whose parents can't get Direct PLUS)</b> |                   |  |
| First Year .....   | \$ 3,500 .....    | \$ 5,500                                     |
| Second Year .....  | \$ 4,500 .....    | \$ 6,500                                     |
| Third Year and Beyond.....   | \$ 5,500 .....    | \$ 7,500                                     |
| <b>Independent Undergraduates &amp; Dependent Students whose parents can't get Direct PLUS</b>     |                   |  |
| First Year .....   | \$ 3,500 .....    | \$ 9,500                                     |
| Second Year .....  | \$ 4,500 .....    | \$ 10,500                                    |
| Third Year and Beyond.....   | \$ 5,500 .....    | \$ 12,500                                    |
| <b>Graduate &amp; Professional Students (all years).....</b>                                       | <b>\$ 0 .....</b> | <b>\$20,500</b>                              |

*Note: All undergraduate annual loan amounts are subject to proration under certain conditions.*

**Aggregate Limits for Sub/Unsub Loans**

|   | <i>Subsidized</i>                  | <i>Total (subsidized &amp; unsubsidized)</i> |
|---|------------------------------------|--|
| <b>Dependent Undergraduates (excluding those whose parents can't get Direct PLUS).....</b>      |                                    |  |
|   | \$ 23,000 .....                    | \$31,000                                     |
| <b>Independent Undergrads &amp; Dependent Students whose parents can't get Direct PLUS.....</b> |                                    |  |
|   | \$ 23,000 .....                    | \$ 57,500                                    |
| <b>Graduate &amp; Professional Students.....</b>  | <b>\$ 65,500<sup>2</sup> .....</b> | <b>\$ 138,500<sup>2</sup></b>                |

*See guidance later in this chapter on additional unsubsidized eligibility for students in certain health professions programs, and special loan limits for preparatory & teacher certification coursework, and the 150% subsidized eligibility limit. See the graphic *Subsidized Loan Eligibility Limitation* later in this chapter.*

<sup>1</sup> Effective for loan periods beginning on or after July 1, 2012, graduate and professional students are no longer eligible to receive Direct Subsidized Loans.

<sup>2</sup> Aggregate loan limits for graduate and professional students include loans received for undergraduate study. The \$65,500 subsidized aggregate loan limit shown here for graduate and professional students includes subsidized loans received for loan periods beginning before July 1, 2012, and prior subsidized loans received for undergraduate study.

**ANNUAL LOAN LIMITS**

Direct Loans have annual loan limits based on the borrower's dependency status and grade level. There are higher Direct Unsubsidized Loan annual loan limits for borrowers enrolled in certain health professions programs and special loan limits for certain borrowers who are not enrolled in a degree or certificate program. In some cases, the annual loan limits for undergraduate students must be prorated (reduced). The annual loan limits are the maximum amounts that a borrower may receive for an academic year. The actual loan amount that a borrower is eligible to receive may be less than the annual loan limit.

Depending on the academic calendar of the program, a borrower who has reached the annual loan limit cannot receive another Direct Loan until he or she either begins another academic year, or, in some cases, progresses within an academic year to a grade level with a higher annual loan limit.

**Direct Loan limits**

34 CFR 685.203

**TIP****Minimum Direct Loan amount**

When originating Direct Loans in the COD system, there is no minimum loan amount.

## Annual Loan Limits—Basic Principles

### *Annual loan limits*

- Direct Loans have annual loan limits.
- There is a subsidized annual loan limit for Direct Loans and a total subsidized/unsubsidized annual loan limit. The subsidized portion of the total annual loan limit may not exceed the subsidized annual loan limit.
- An undergraduate student who is ineligible for Direct Subsidized Loans may receive up to the total subsidized/unsubsidized annual loan limit in Direct Unsubsidized Loans.
- The Direct Subsidized Loan annual loan limits are the same for both dependent and independent undergraduates.
- Dependent students have lower total subsidized/unsubsidized annual loan limits than independent students; if a dependent student's parent(s) cannot get a Direct PLUS Loan, the student becomes eligible for the higher total subsidized/unsubsidized annual loan limits that apply to an independent student, allowing the dependent student to receive additional Direct Unsubsidized Loan funds.
- The annual loan limits apply to the academic year (that is, the annual loan limit is the maximum loan amount that a student may receive for one academic year).
- The student's maximum annual loan limit increases as the student progresses to higher grade levels.
- For undergraduate students, the annual loan limit must be prorated if the student is attending a program that is shorter than an academic year or is enrolled in the remaining portion of a program that is shorter than an academic year.
- For loan periods beginning July 1, 2012, graduate/professional students are no longer eligible to receive Direct Subsidized Loans.

### *Annual Loan Limit Progression: SAY/BBAY*

- A school must use either a Scheduled Academic Year (SAY) or a Borrower-Based Academic Year (BBAY) to determine when a student is eligible for a new annual loan limit.
- An SAY generally begins/ends at the same time each year; a BBAY "floats" with the student's enrollment.
- A traditional calendar program or an SE9W program with a comparable calendar may use an SAY.
- A clock-hour or non-term program, or, a program that does not have an SAY must use a BBAY.
- In a clock-hour or non-term program, or a program with nonstandard terms that are not SE9W, the borrower must successfully complete the hours and weeks of instructional time in the FSA academic year before the borrower is eligible for a new annual loan limit.
- In a standard-term or SE9W program, it is possible for a student to advance a grade level and become eligible for a higher loan amount within an academic year.

### *Direct Loan limits for a dependent undergraduate borrower*

Dependent undergraduate borrowers (excluding dependent undergraduates whose parents are unable to obtain Direct PLUS Loans) are eligible for an additional \$2,000 in Direct Unsubsidized Loan funds each academic year. This additional eligibility is unrelated to and unaffected by the sunset of the ECASLA special treatment of certain loan funds for purposes of the 90/10 rule (See *The Federal Student Aid Handbook, Volume 2*). For these borrowers, the annual loan limits are:

- ♦ 3,500 combined Direct Subsidized and/or Unsubsidized plus \$2,000 additional Direct Unsubsidized for dependent first-year undergraduates;
- ♦ \$4,500 combined Direct Subsidized and/or Unsubsidized plus \$2,000 additional Direct Unsubsidized for dependent second-year undergraduates; and
- ♦ \$5,500 combined Direct Subsidized and/or Unsubsidized plus \$2,000 additional Direct Unsubsidized for dependent third-, fourth-, or fifth-year undergraduates.

These loan limits represent the total of all Direct Subsidized and Direct Unsubsidized Loans a dependent undergraduate borrower may borrow at each level of study for a single academic year. For example, a dependent first-year undergraduate may receive up to \$5,500 in Direct Loans for a single academic year, but no more than \$3,500 of this amount may be subsidized. A dependent first-year undergraduate who has no subsidized loan eligibility could receive up to the full \$5,500 in Direct Unsubsidized Loans.

### *Increased Direct Unsubsidized Loan limits for independent undergraduates and dependent undergraduates whose parents can't get a Direct PLUS Loan*

There are higher additional unsubsidized annual loan limits for independent undergraduate borrowers. These higher additional unsubsidized loan limits also apply to dependent undergraduate borrowers whose parents are unable to borrow Direct PLUS Loans due to adverse credit or other documented exceptional circumstances.

- ♦ \$3,500 combined Direct Subsidized and/or Unsubsidized plus \$6,000 additional Direct Unsubsidized for independent first-year undergraduates;
- ♦ \$4,500 combined Direct Subsidized/and or Unsubsidized plus \$6,000 additional Direct Unsubsidized for independent second-year undergraduates; and
- ♦ \$5,500 combined Direct Subsidized and/or Unsubsidized plus \$7,000 additional Direct Unsubsidized for independent third-, fourth-, or fifth-year undergraduates.

### **Direct Subsidized Loans and Direct Unsubsidized Loans**

The federal government pays the interest on a Direct Subsidized Loan during: in-school status, authorized deferment periods, and, for loans first disbursed before July 1, 2012, and after July 1, 2014, the grace period.

The student is responsible for paying the interest on a Direct Unsubsidized Loan during all periods.

#### **Increasing the loan amount when student changes dependency status during the academic year**

For any type of educational program (whether term-based or non-term, credit-hour or clock-hour), a dependent student who has already borrowed up to the annual loan limit within an academic year may be eligible to receive additional loan funds if his or her dependency status changes to independent during that same academic year.

### **Increased Unsubsidized Direct Loan limits for independent students and dependent students whose parents can't get Direct PLUS Loans**

34 CFR 685.203(c)(1)(ii)  
DCL GEN 11-07

#### **Direct Loans for students whose parents have ended financial support and refuse to file a FAFSA**

Schools may offer a dependent student a Direct Unsubsidized Loan if the student's parents have ended financial support and refuse to file a FAFSA. For more detail, see chapter 5 of the *Application and Verification Guide* and DCL GEN-08-12.



### Example: additional unsubsidized for independent undergraduate

Dottie is a first-year independent undergraduate student at Ferrar's Institute. Her COA is \$14,500, her EFC is \$1,800, and she is receiving a \$2,981 Pell Grant. Dottie qualifies for a Direct Subsidized Loan of \$3,500. She may also receive the maximum additional Direct Unsubsidized Loan amount of \$6,000 to cover most of her unmet need. Her total loan amount in Direct Subsidized and Direct Unsubsidized Loans is \$9,500. (Note that Dottie's loan eligibility would be the same if she were a dependent undergraduate whose parent was unable to obtain a Direct PLUS Loan.)

### Entrance counseling requirements for Graduate/ Professional Direct PLUS borrowers

For entrance counseling requirements for Graduate/Professional PLUS—see *The Federal Student Aid Handbook, Volume 2*.

### Graduate/professional student lending in EDEXpress for 2012–13

E-Announcement January 11, 2012

### Loss of subsidized loan eligibility for graduate/professional students

GEN-11-16

### Direct PLUS Loans for graduate/professional students

Direct PLUS Loans for graduate/professional students were authorized by the Higher Education Reconciliation Act of 2005, effective July 1, 2006. Previously, Direct PLUS Loans were available only to parents of dependent undergraduates. Participation in the Direct PLUS Loan program is optional for schools. However, if a school participates in the Direct PLUS Loan program it may not limit Direct PLUS Loans only to parent borrowers or only to graduate/professional student borrowers.

As with the loan limits for dependent undergraduates, these loan limits represent the total of all subsidized and unsubsidized Direct Loans that an independent undergraduate borrower (or a dependent undergraduate whose parent is unable to obtain a Direct PLUS Loan) may borrow at each level of study, for a single academic year. For example, an independent, first-year undergraduate may receive up to \$9,500 in Direct Subsidized/Unsubsidized Loans for a single academic year, but no more than \$3,500 of this amount may be subsidized.

Note that a dependent undergraduate whose parent is unable to obtain a Direct PLUS Loan is not eligible to receive both the \$2,000 in additional Direct Unsubsidized Loans that is part of the annual loan limits for dependent undergraduates plus the additional \$6,000 or \$7,000 in Direct Unsubsidized Loan funds that is available to independent undergraduates and dependent undergraduates whose parents are unable to obtain Direct PLUS Loans.

### Direct Loan limits for graduate and professional borrowers

The Budget Control Act of 2011 eliminated subsidized loan eligibility for graduate and professional borrowers for periods of enrollment (loan periods) beginning on or after July 1, 2012. The annual loan limit for graduate or professional borrowers is \$20,500 in Direct Unsubsidized Loans per academic year. (See the end of this section for situations where a program combines graduate and undergraduate study or a borrower with a graduate degree is pursuing an undergraduate program.)

The regulations define a graduate/professional borrower as a borrower who is enrolled in a program or course above the baccalaureate level or in a professional program and has completed the equivalent of three academic years of full-time study either prior to entering the program or as part of the program itself. Also, a borrower who is receiving Title IV aid as an undergraduate borrower can't be considered a graduate/professional borrower for that same period of enrollment.

There are several rules to consider if a borrower is simultaneously taking undergraduate and graduate courses. A borrower in an undergraduate program can't get the graduate loan limits based on taking graduate coursework as a part of the undergraduate program. A borrower enrolled in preparatory or teacher certification coursework is considered an undergraduate borrower for purposes of annual loan limits, even if the borrower is taking preparatory coursework required for enrollment in a graduate or professional program.



In contrast, a graduate student who is taking some undergraduate coursework is eligible for the graduate loan limits if the borrower is enrolled at least half-time in courses (either graduate or undergraduate) that can be applied to the graduate program requirements. However, the borrower must already be admitted into the graduate program. A borrower with a bachelor's degree who is taking preparatory work for graduate school (or whose full admission to the graduate program is contingent upon completion of certain undergraduate courses) is not eligible for graduate loan limits.

There are no fixed annual or aggregate loan limits for Direct PLUS Loans. A graduate or professional student may be awarded a Direct PLUS Loan for up to the borrower's cost of attendance minus other estimated financial assistance (see *The Federal Student Aid Handbook, Volume 3* for packaging rules). Therefore, a graduate/professional student has additional Direct PLUS eligibility beyond the maximum Direct Unsubsidized Loan limits.

Similarly, the total Direct PLUS Loan amount borrowed by one parent or borrowed separately by more than one parent on behalf of a dependent student may not exceed the student's estimated cost of attendance minus other financial aid awarded for the period of enrollment. This is the only borrowing limit for Direct PLUS Loans. For more on borrower eligibility, see *The Federal Student Aid Handbook, Volume 1*.

### **Increased unsubsidized eligibility for health professions borrowers**

To replace loan funds that otherwise would have been available under the HEAL Program, certain health professions borrowers have increased Direct Unsubsidized Loan limits. Schools may award the increased Direct Unsubsidized Loans amounts to borrowers who are enrolled at least half-time in a health professions discipline that was eligible under the HEAL Program, or in certain naturopathic medicine programs. The program must be accredited by an approved accrediting agency (see sidebar).

The disciplines that were eligible under the HEAL Program and the approved accrediting agencies for these disciplines are shown in the loan limit chart for the increased unsubsidized amounts at the end of this section. Note that the HEAL Program required a need analysis test, while need analysis (represented by the EFC) is not required for Direct Unsubsidized Loans.

Because the increased annual Direct Unsubsidized Loan limits are intended to replace funds that would have been available previously under the HEAL Program, the annual loan limits for the increased unsubsidized amounts are the same as the HEAL Program annual loan limits.

#### **Eligible health professions disciplines & accreditors**

The following disciplines are eligible for the increased unsubsidized loan limits. (Must be accredited by the agency shown in italics.)

- Doctor of Pharmacy  
*Accreditation Council for Pharmacy Education*
- Graduate in Public Health  
*Council on Education for Public Health*
- Doctor of Chiropractic  
*Council on Chiropractic Education, Commission on Accreditation*
- Doctoral Degree in Clinical Psychology  
*American Psychological Association, Committee on Accreditation*
- Masters in Health Administration  
*Commission on Accreditation of Healthcare Management Education*
- Doctor of Naturopathic Medicine, Doctor of Naturopathy  
*Council on Naturopathic Medical Education*
- Doctor of Allopathic Medicine  
*Liaison Committee on Medical Education*
- Doctor of Osteopathic Medicine  
*American Osteopathic Association, Bureau of Professional Education*
- Doctor of Dentistry  
*American Dental Association, Commission on Dental Accreditation*
- Doctor of Veterinary Medicine  
*American Veterinary Medical Association, Council on Education*
- Doctor of Optometry  
*American Optometric Association, Council on Optometric Education*
- Doctor of Podiatric Medicine  
*American Podiatric Medical Association, Council on Podiatric Medical Education*

#### **Example of annual loan limit**

The increased unsubsidized amounts that an eligible health professions student may receive are in addition to the regular annual Direct Loan limits. For example, a student enrolled in a nine-month Doctor of Dentistry program is eligible for the regular annual Direct Unsubsidized Loan maximum for a graduate/professional student (\$20,500) plus the maximum increased unsubsidized amount of \$20,000, for a total annual loan limit of \$40,500.

**HEAL program phaseout**

The Health Education Assistance Loan (HEAL) Program, administered by the Department was phased out between 1995 and 1999.

**Foreign schools not HEAL-eligible**

Foreign schools were not eligible to participate in the HEAL Program. Therefore, they may not award the increased unsubsidized Direct Loan amounts.

In addition to the health professions disciplines that were eligible under the HEAL Program, domestic schools may also award additional Direct Unsubsidized Loan amounts to a borrower who is enrolled in a program that leads to a Doctor of Naturopathic Medicine (N.M.D.) degree or a Doctor of Naturopathy (N.D.) degree, and that is accredited by the Council on Naturopathic Medical Education (CNME).

The following chart shows the annual loan limits for the increased unsubsidized amounts, which vary by discipline and academic year length. The combined subsidized/unsubsidized aggregate loan limit for graduate and professional health professions borrowers who are eligible to receive the increased Direct Unsubsidized Loan amounts is \$224,000 (not more than \$65,500 of this amount may be in subsidized loans). If a borrower receives the additional Direct Loan amounts on the basis of study in a health profession program but then leaves that program and enters a program in a different field, the borrower is no longer eligible for the increased Direct Unsubsidized Loan limits. However, the additional Direct Unsubsidized Loan amounts received on the basis of health professions study are not counted toward the normal aggregate Direct Loan Limit for that borrower.

## Increased Direct Loan Limits for Health Professions Students

**Additional Unsubsidized eligibility for HEAL-eligible students**

Schools may award the following additional unsubsidized loan amounts to students who are enrolled at least half-time in the following health professions disciplines:

- Graduate in Public Health; Doctor of Pharmacy or Chiropractic; Doctoral Degree in Clinical Psychology; Masters Degree in Health Administration
 

|                        |           |
|------------------------|-----------|
| 9-month academic year  | \$12,500* |
| 12-month academic year | \$16,667* |
- Doctor of Dentistry, Veterinary Medicine, Optometry, Allopathic Medicine, Osteopathic Medicine, Podiatric Medicine, Naturopathic Medicine, or Naturopathy
 

|                        |           |
|------------------------|-----------|
| 9-month academic year  | \$20,000* |
| 12-month academic year | \$26,667* |

Students in these programs are also eligible for a higher aggregate limit for combined subsidized/unsubsidized loans: \$224,000.

\* PRORATION OF ANNUAL LOAN LIMIT FOR ACADEMIC YEAR COVERING 10 OR 11 MONTHS: For programs with an academic year covering 10 or 11 months, the annual additional unsubsidized loan limit must be prorated. If the academic year covers 10 or 11 months, the prorated annual loan limit is determined by dividing the applicable loan limit for an academic year covering 9 months by 9, and then multiplying the result by 10 or 11.

See the previous page for the accreditation requirements for each of the disciplines listed above.

## Annual Direct Loan Limits for Preparatory Coursework and Teacher Certification

In *The Federal Student Aid Handbook, Volume 1*, we discuss instances in which a student may receive a Direct Loan for coursework that is not part of an eligible program. If the student and the academic coursework meet the conditions described in that volume, the annual loan limits are:

| <b>Dependent Students (excluding students whose parents cannot borrow PLUS)</b>   | <b>Base Amount Sub/Unsub</b> | <b>Additional Unsubsidized Loan Amount</b> |
|---|------------------------------|--|
| Preparatory coursework (for enrollment in an undergraduate program)               | \$2,625                      | 0  |
| Preparatory coursework (for enrollment in a graduate or professional program)     | \$5,500                      | 0  |
| Teacher certification coursework  | \$5,500                      | 0  |
| <b>Independent Students and dependent students whose parents cannot get PLUS)</b> | <b>Base Amount Sub/Unsub</b> | <b>Additional Unsubsidized Loan Amount</b> |
| Preparatory coursework (for enrollment in an undergraduate program)               | \$2,625                      | \$6,000                                    |
| Preparatory coursework (for enrollment in a graduate or professional program)     | \$5,500                      | \$7,000                                    |
| Teacher certification coursework  | \$5,500                      | \$7,000                                    |

**NEW**

## Subsidized Loan Eligibility Limitation

A “first- time borrower” (an individual who has no outstanding balance of principal or interest on a loan made under the Direct Loan Program or the FFEL Program on July 1, 2013, or on the date the borrower obtains a Direct Loan after July 1, 2013) is not eligible for a Direct Subsidized Loan if the period of time for which the borrower has received Direct Subsidized Loans, in the aggregate, exceeds 150 percent of the published length of the borrower’s educational program. Such a borrower may still receive any Direct Unsubsidized Loan for which the borrower is otherwise eligible.

HEA Sec. 455(q)  
 34 CFR 685.200(a)(2)(i)(B)  
 34 CFR 685.200(f)  
 DCL GEN-13-13  
 FR 78, No. 95, May 16, 2013

## Criteria for Additional Direct Unsubsidized Loans

Dependent students whose parents are unable to get Direct PLUS Loans due to adverse credit or other exceptional circumstances may receive additional Direct Unsubsidized Loan funds up to the same amount that is available to independent undergraduate students. The increased loan amounts may not substitute entirely for the amount a parent may borrow under the Direct PLUS program, which may be up to the difference between COA and EFA. As a result, you should determine whether the parents may be able to get a Direct PLUS Loan using an endorser who does not have an adverse credit history before originating additional unsubsidized loan amounts for the dependent student.

Some basic guidelines for awarding additional Direct Unsubsidized Loan funds to dependent undergraduates include:

- The parent's unwillingness to seek a Direct PLUS Loan, a school's decision not to participate in the Direct PLUS Loan Program, or an aid administrator's belief that a parent should not receive a Direct PLUS Loan does not make the dependent student eligible.
- If only one of a student's two parents has applied for a Direct PLUS Loan and been denied based on adverse credit, you may award additional Direct Unsubsidized Loan funds on that basis. However, if both parents apply independently and one is approved and the other denied, the dependent student is not eligible for the increased unsubsidized loan amounts.
- The dependent student may become eligible at any time during an academic year if a parent has first been approved and then later denied a Direct PLUS Loan based on a subsequent application. Under these circumstances, any previous Direct PLUS Loan funds received during the same period of enrollment are treated as estimated financial assistance in determining the student's remaining eligibility for additional unsubsidized loan amounts.

In addition to cases in which a parent has been denied a Direct PLUS Loan due to adverse credit, a dependent undergraduate student may also be eligible for increased unsubsidized loan amounts if you determine and document that other

exceptional circumstances exist that will prevent a parent from obtaining a Direct PLUS Loan. Examples of such exceptional circumstances include, but are not limited to, the following:

- The parent is incarcerated.
- The parent's whereabouts are unknown.
- The parent has filed for bankruptcy and has provided a letter from the bankruptcy court stating that as a condition of the bankruptcy filing, the parent may not incur any additional debt.
- The parent's income is limited to public assistance or disability benefits, and you have documented that the parent would not be able to repay the Direct PLUS Loan.
- You have examined the family financial information and documented the parent's likely inability to repay the Direct PLUS Loan due to an existing debt burden or the parent's expected income-to-debt ratio.
- The parent of a dependent student is not a U.S. citizen or permanent resident or is not able to provide evidence from the U.S. Citizenship and Immigration Service that he or she is in the United States for other than a temporary purpose with the intention of becoming a citizen or permanent resident.

Before originating a loan for the increased Direct Unsubsidized Loan amounts based on parents' ineligibility for a Direct PLUS Loan due to adverse credit or other exceptional circumstances, you must document the basis of the dependent student's eligibility.

A determination that a parent is ineligible for a Direct PLUS Loan in one academic year based on adverse credit or other exceptional circumstances does not automatically support the dependent student's additional unsubsidized loan eligibility in subsequent years. If a dependent student is determined to be eligible for additional unsubsidized loan amounts in one academic year, you must re-examine and document that the basis for the student's eligibility continues to apply before originating additional unsubsidized loan amounts for the dependent in a subsequent year.

## Graduate vs. Undergraduate Limits—Special Cases

*As noted in an earlier comment, students taking preparatory coursework or teacher certification coursework are considered to be undergraduates.*

- **Combined undergraduate/graduate programs**

Some programs combine undergraduate and graduate study, where the first years of the program are undergraduate study and the final years of the program are graduate study. For instance, in a 5-year program leading to a graduate or professional degree, the school may define the first 3 or 4 years of study as being at the undergraduate level.

- **Students returning for second baccalaureate degree**

If a student with a baccalaureate degree enrolls in another baccalaureate program, his/her grade level for loan limit purposes would be based on the amount of work that the school counts toward satisfying the requirements of the new program. For instance, if your school accepts 30 semester hours of a student's work in a previous baccalaureate program toward the requirements for a BS in Chemistry at your school and on that basis classifies the student at the second-year level, then the student would be eligible for second-year undergraduate loan limits. (See below for the loan limit that applies when a student is required to have a prior associate's or baccalaureate degree as condition for being admitted to an undergraduate program.)

- **Transfer from graduate to undergraduate program during an academic year**

If a student transfers from a graduate program to an undergraduate program in the middle of an academic year, the undergraduate annual loan limit for the student's grade level applies, but amounts previously borrowed at the graduate level within the same academic year do not count against the undergraduate annual loan limit. However, the total amount awarded for the academic year may not exceed the higher (grad/professional) annual loan limit.

- **Baccalaureate or associate degree required for admission to an undergraduate program**

A student who has an associate or baccalaureate degree that is required for admission into an undergraduate program may borrow up to the highest undergraduate annual loan limit (\$5,500 for a dependent student; additional \$7,000 in unsubsidized Direct Loans for an independent student or a dependent student whose parent is not eligible for a Direct PLUS Loan), subject to the undergraduate aggregate loan limits.

- **Undergraduate student with graduate degree**

In some cases, a student who previously received undergraduate and graduate degrees returns to school to complete a second undergraduate program. Only the loans that the student received for the first undergraduate program are included in determining the student's remaining eligibility for loans for the second undergraduate program, up to the undergraduate aggregate limits.

Although loans received for graduate study are not counted toward a student's undergraduate aggregate loan limit, the combined loan amounts received for undergraduate and graduate programs may not exceed the total allowable aggregate loan limits. (See example below.)

### Example: Graduate Student Returning to Undergraduate Program

|  |                             | <b>Subsidized:</b> | <b>Unsubsidized:</b> | <b>Total</b> |
|--|-----------------------------|--------------------|----------------------|--------------|
| An independent student has received the following loan amounts for a first undergraduate program and a graduate program: | <b>Undergraduate</b>        | \$20,500           | \$10,000             | \$30,500     |
|  | <b>Graduate<sup>1</sup></b> | \$45,000           | \$40,000             | \$85,000     |
|  | <b>Total</b>                | \$65,500           | \$50,000             | \$115,500    |

The student has now enrolled in a second undergraduate program. Only the loans received for the first undergraduate program are counted toward the student's undergraduate aggregate loan limit. Because the total amount received for the first undergraduate program (\$30,500) does not exceed the aggregate loan limit for an independent undergraduate (\$57,500, maximum \$23,000 subsidized), the student has remaining loan eligibility for the second undergraduate program.

However, the loans received for the graduate program must still be considered to ensure that the student does not exceed the total aggregate loan limits. In this case, the total subsidized amount already received (\$65,500) is the maximum subsidized amount that a student may receive for undergraduate and graduate study combined. Therefore, the student may receive only unsubsidized loans for the second undergraduate program. The student may not exceed the combined undergraduate/graduate aggregate loan limit of \$138,500. This means that the student's remaining loan eligibility for the second undergraduate program is \$23,000 in unsubsidized loans (\$138,500 - \$115,500 already received for the first undergraduate program and the graduate program).

<sup>1</sup> This example assumes that the student received the \$45,000 in subsidized loans for graduate study for periods of enrollment that began before July 1, 2012.



**Academic Year**

See *The Federal Student Aid Handbook, Volume 3* for a discussion of academic year requirements.

**Standard Terms**

Standard terms are semesters, trimesters, or quarters. See *The Federal Student Aid Handbook, Volume 3* for more detail on standard terms.  
34 CFR 668.4

**Alternating SAY/BBAY 1**

This treatment may allow a student to receive another loan sooner than would be allowed under an SAY standard. For instance, if you normally use an SAY consisting of fall and spring semesters with a summer trailer, a student who received the maximum annual loan limit for fall-spring could not receive another loan until the start of a new SAY in the fall. If the student enrolls for summer and wants a loan, you could choose to switch the student to a BBAY consisting of the summer and fall terms. The student could then receive a loan for the summer term, since summer would be the start of a new academic year. A school that has these choices for academic year standards must have a written policy that explains how it applies these options when calculating loan eligibility.

**Treatment of summer minisessions**

Summer minisessions must be grouped together as a single trailer or header term if the program is to have a BBAY, or they can be treated separately and assigned to different SAYs. (See *The Federal Student Aid Handbook, Volume 3* for treatment of minisessions as payment periods and in determining Pell payments.) If the summer minisessions are grouped and treated as a single term, the summer cost of attendance cannot include costs for a minisession for which the student is not expected to be enrolled.

**ANNUAL LOAN LIMIT PROGRESSION****Academic year and loan limits**

The annual loan limits for Direct Subsidized/Unsubsidized Loans apply to the academic year. (The award year concept for Pell and the Campus-Based Programs is not a factor for Direct Subsidized/Unsubsidized and Direct PLUS Loans.) The loan period is often equivalent to an academic year, but there are also many situations where this is not the case. (If you are not familiar with the definition of an academic year, see *The Federal Student Aid Handbook, Volume 3*.)

**Two types of academic years for annual loan limits****Scheduled academic year (SAY) and borrower-based academic year (BBAY)**

There are two types of academic years that may be used to monitor annual loan limits for Direct Subsidized/Unsubsidized Loans: a Scheduled Academic Year (SAY) or a Borrower-Based Academic Year (BBAY). (Note that although there is no annual loan limit for Direct PLUS Loans, Direct PLUS Loans are awarded for the same SAY or BBAY period that is used for Direct Subsidized/Unsubsidized Loans.)

An SAY corresponds to a traditional academic year calendar published in a school's catalogue or other materials (for example, fall and spring semesters, or fall, winter, and spring quarters, or, for a nonstandard SE9W program, an academic calendar comparable to a traditional academic calendar). An SAY is a fixed period of time that begins and ends at the same time each year.

A BBAY does not have a fixed beginning and ending. Instead, it "floats" with a borrower's (or group of borrowers') attendance and progression in a program of study. There are three different types of BBAY as described in the chart that follows.

If a program is offered in an SAY calendar, you have the option of using either an SAY or BBAY 1 to monitor the annual loan limits for borrowers in that program. You must use a BBAY to monitor the annual loan limits for any academic program that does not meet the definition of a program allowed to use an SAY. However, there are significant differences between the different types of BBAY:

- ♦ **BBAY 1**, for credit-hour programs using an SAY with standard terms or nonstandard SE9W terms.
- ♦ **BBAY 2**, for credit-hour programs not using an SAY, with standard terms or nonstandard SE9W terms.
- ♦ **BBAY 3**, for clock-hour programs, non-term programs, and any nonstandard-term program, or a program with standard and nonstandard terms, not described above.

## Monitoring Annual Loan Limits with an SAY or BBAY

| <b>Credit-hour programs offered in a Scheduled Academic Year (SAY)</b><br>An SAY uses 1) a traditional academic calendar with at least two semesters or trimesters or three quarters in the fall through spring; or 2) a comparable academic calendar with nonstandard SE9W terms.  |  |   |  |
|---|--|---|--|
| <b>Credit-hour programs not offered in a Scheduled Academic Year, but with 1) standard terms, or 2) nonstandard SE9W terms</b>  |  | <b>Clock-hour programs, non-term programs, and programs with nonstandard terms that are not SE9W</b>  |  |
| May use SAY   | May use BBAY 1   | Must use BBAY 2   | Must use BBAY3   |
| 1) An SAY generally begins/ends at same time each year.<br>2) The student does not have to be enrolled in the first term of the SAY.<br>3) An SAY for a program must at least meet the program's FSA academic year in weeks/hours.<br>4) Total of all loans received within SAY (including summer trailer/header) may not exceed annual loan limit<br>5) Student becomes eligible for new annual loan limit after SAY calendar period has elapsed.<br>6) After original loan, student may receive additional loans during same SAY if:<br><ul style="list-style-type: none"> <li>• Student did not receive maximum annual loan amount and has remaining eligibility;</li> <li>• Student progresses to grade level with higher annual loan limit; or</li> <li>• Student changes from dependent to independent.</li> </ul> 7) Summer term may be "trailer" or "header" per:<br><ul style="list-style-type: none"> <li>• Strict policy;</li> <li>• By program; or</li> <li>• Case-by-case, by student</li> </ul> | <i>May use BBAY 1 for all students; certain students; or certain programs</i><br><b>May alternate SAY and BBAY1 for a student provided academic years do not overlap</b><br>1) BBAY1 "floats" with the student's enrollment.<br>2) Student must be enrolled in first term of the BBAY1 (less-than-1/2-time enrollment is acceptable).<br>3) Length of BBAY1 must equal the number of terms in the program's SAY, excluding the summer trailer/header.<br><ul style="list-style-type: none"> <li>• Number of hours/weeks in BBAY1 need not meet the regulatory requirements for an academic year if the BBAY1 includes summer term.</li> <li>• May include terms student does not attend if student could have enrolled at least 1/2 time.</li> </ul> 4) Total of all loans received within BBAY1 may not exceed annual loan limit.<br>5) Student becomes eligible for new annual loan limit after BBAY1 calendar period has elapsed.<br>6) After original loan, student may receive additional loans during same BBAY1 if:<br><ul style="list-style-type: none"> <li>• Student did not receive maximum annual loan amount and has remaining eligibility;</li> <li>• Student progresses to grade level with higher annual loan limit; or</li> <li>• Student changes from dependent to independent</li> </ul> 7) Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard or nonstandard term (affects all FSA programs)<br><ul style="list-style-type: none"> <li>• Student need not enroll in each minisession, but must have been able to enroll at least 1/2-time in the combined term.</li> </ul> | 1) BBAY2 floats with student's enrollment.<br>2) Student must be enrolled in first term of the BBAY2 (less-than-half-time enrollment is acceptable). The BBAY2 may include terms student does not attend if student could have enrolled at least half-time.<br>3) The BBAY2 must meet at least the minimum requirements for hours/weeks of the program's FSA academic year, and it must consist of:<br><ul style="list-style-type: none"> <li>• at least 2 consecutive semesters or trimesters;</li> <li>• at least 3 consecutive quarters; or</li> <li>• at least the number of consecutive SE9W terms covered by the program's FSA academic year.</li> </ul> 4) Total of all loans received within a BBAY2 may not exceed annual loan limit.<br>5) Student becomes eligible for new annual loan limit after BBAY2 calendar period has elapsed.<br>6) After original loan, student may receive additional loans during same BBAY2 if:<br><ul style="list-style-type: none"> <li>• Student did not receive maximum annual loan amount and has remaining eligibility;</li> <li>• Student progresses to grade level with higher annual loan limit; or</li> <li>• Student changes from dependent to independent.</li> </ul> 7) Minisessions (summer or otherwise) must be combined with each other or with other terms and treated as a single standard term (affects all FSA programs)<br><ul style="list-style-type: none"> <li>• Student need not enroll in each minisession but must have been able to enroll at least 1/2-time in the combined term.</li> </ul> | <i>BBAY3 also applies to programs that mix nonstandard terms and standard terms that do not have an SAY</i><br>1) BBAY3 floats with student's enrollment.<br>2) The BBAY3 begins with student's enrollment on at least a half-time basis.<br>3) BBAY3 must meet at least the minimum requirements for hours/weeks of the program's FSA academic year.<br>4) Total of all loans received within a BBAY3 may not exceed annual loan limit.<br>5a) Student becomes eligible for new annual loan limit only after successfully completing the clock or credit- hours AND weeks of instructional time in the BBAY3.<br>5b) A student may not become eligible for next grade level annual loan limits until after completion of a BBAY3.<br>6) After original loan, student may receive additional loans within BBAY3 only if:<br><ul style="list-style-type: none"> <li>• Student did not receive maximum annual loan amount and has remaining eligibility; or</li> <li>• Student changes from dependent to independent.</li> </ul> |



## SAY for Standard Term, Credit-Hour Programs Using a Traditional Academic Year Calendar

Springfield Academy offers a 2-year program measured in semesters and awarding credit hours. It defines its FSA academic year in accordance with the minimum requirements and uses an SAY that provides 30 weeks of instruction and 24 semester hours, and includes two semesters (fall and spring), each 15 weeks of instructional time in length. Springfield Academy also offers a summer session that it treats as a “trailer” to the SAY.

Most of Springfield’s students do not attend the summer session, so the aid office typically originates Direct Loans for a period of enrollment that starts with the fall semester (August 27) and concludes at the end of the spring semester (May 2). However, there are some first-year students who decide to enroll in the summer term in order to complete their studies sooner. The annual loan limit applies to the fall through spring SAY, plus the summer trailer. Students who receive the maximum annual loan amount for fall-spring have no loan eligibility for summer and may not borrow again until the start of the next SAY in the fall, unless Springfield opts to place them in a BBAY beginning with the summer term.

|                                 |                 |             |
|---------------------------------|-----------------|-------------|
| Fall Semester                   | Spring Semester | Summer Term |
| Year 1: Scheduled Academic Year |                 |             |
| Fall Semester                   | Spring Semester | Summer Term |
| Year 2: Scheduled Academic Year |                 |             |

***Academic Year for loan limit purposes = 2 semesters + summer trailer***

## Standard Term, Credit-Hour Programs Using a Traditional Academic Year Calendar—BBAY 1

### 1. BBAY where SAY contains 2 semesters

Examples 1a through 1c illustrate the optional use of a BBAY for a program that is offered in an SAY consisting of two semesters, fall and spring, each 15 weeks of instructional time in length. (Note that in each example, the first BBAY is the same as the SAY.)

In example 1a, the initial fall and spring terms could be considered either an SAY or BBAY. If the student attends the summer session at the school, the aid administrator can elect to treat the summer term and the next fall as a BBAY for the student. In that case, the following spring and summer would also constitute a BBAY. The maximum loan limit for an academic year applies to each BBAY. If these were the first three years of study for a dependent student and the student progressed a grade level each academic year, he/she would be eligible for up to the applicable annual loan limits for the respective academic years.

|     |                     |        |              |      |              |        |
|-----|---------------------|--------|--------------|------|--------------|--------|
| 1a. | Fall                | Spring | Summer       | Fall | Spring       | Summer |
|     | Year 1: SAY or BBAY |        | Year 2: BBAY |      | Year 3: BBAY |        |

A student doesn't have to attend all of the terms in a BBAY, but the BBAY cannot begin with a term that the student doesn't attend. In example 1b, the student is not enrolled in the second term (fall) of year 2.

In example 1c, if the student does not attend a term that otherwise would have been the beginning of a BBAY (in this case, spring), then the student's next BBAY cannot begin until the next term that the student attends. As with example 1a, the annual loan limit applies to each BBAY.

|     |                     |        |              |                        |              |        |
|-----|---------------------|--------|--------------|------------------------|--------------|--------|
| 1b. | Fall                | Spring | Summer       | Fall<br>(not enrolled) | Spring       | Summer |
|     | Year 1: SAY or BBAY |        | Year 2: BBAY |                        | Year 3: BBAY |        |

|     |                     |        |              |      |                          |        |      |
|-----|---------------------|--------|--------------|------|--------------------------|--------|------|
| 1c. | Fall                | Spring | Summer       | Fall | Spring<br>(not enrolled) | Summer | Fall |
|     | Year 1: SAY or BBAY |        | Year 2: BBAY |      | Year 3: BBAY             |        |      |

### 2. BBAY where SAY contains 3 quarters

The same concepts apply to quarter-term programs. For instance, in example 2, the fall, winter, and spring terms constitute the school's SAY. If the student attends the summer session at the school, it can be the first term of a BBAY that includes the following fall and winter terms

|                     |        |        |              |      |        |
|---------------------|--------|--------|--------------|------|--------|
| Fall                | Winter | Spring | Summer       | Fall | Winter |
| Year 1: SAY or BBAY |        |        | Year 2: BBAY |      |        |

### Nonstandard “SE9W” Terms

If a credit-hour program has nonstandard terms, the terms are substantially equal in length, and each term is at least 9 weeks of instructional time in length, then the terms, for annual loan limit progression purposes, are referred to throughout this chapter as “SE9W.”

The length of terms is measured in weeks of instructional time, as defined in *The Federal Student Aid Handbook, Volume 3*. Nonstandard terms are substantially equal if no term in the loan period is more than 2 weeks of instructional time longer than any other term in that loan period.

A nonstandard program with SE9W terms may use an SAY if it has a fixed academic calendar comparable to a traditional academic calendar (i.e., terms that start at about the same time each year, where 2 or more nonstandard terms normally make up the academic year in the fall through spring).

### SE9W SAY Example

Great Plains Business College has programs with an academic calendar using semester hours with four terms, each with 12 weeks of instructional time in length, with three of the terms offered over the fall through spring and the fourth term offered in the summer. Great Plains defines its academic year as 36 weeks of instructional time and 24 semester hours. As “quarters” using semester hours, the terms are nonstandard terms.

Because these nonstandard terms are substantially equal and at least nine weeks of instructional time in length (SE9W), and are offered in a fixed schedule that encompasses the FSA academic year (plus the summer term), with an academic calendar comparable to a traditional calendar, the school may use an SAY or BBAY 1 for these programs.

### Credit-hour programs with traditional calendars using standard terms or nonstandard terms that are substantially equal in length and at least nine weeks long (SE9W) may use SAY

As noted previously, an SAY corresponds to a traditional academic year calendar, and usually begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). An SAY must meet the FSA requirements for an academic year (the latter as described in *The Federal Student Aid Handbook, Volume 3*). An SAY may include one or more terms that a borrower does not attend.

Summer terms are generally not considered to be part of the SAY, but for loan limit purposes, they may be treated as a “trailer” to the preceding SAY or as a “header” to the following SAY. Your school has the option to establish a policy that designates its summer term as either a trailer or header to the SAY for all borrowers. You can also choose to make different designations for different educational programs, or for different borrowers, as long as you ensure that there is no overlap in academic years. Note that a fixed designation of the summer term can limit a borrower’s eligibility. For instance, if you always treat your summer term as a trailer to a preceding fall-spring SAY, a borrower who receives the full annual loan limit for fall-spring would have no remaining loan eligibility for summer.

The annual loan limit applies to the SAY, plus the summer trailer or header. Once the calendar period associated with all of the terms in the SAY and the summer header or trailer (if any) has elapsed, a borrower regains eligibility for a new annual loan limit.

### Credit-hour programs with an SAY— BBAY 1

If a program is offered in a SAY, you have the option of using a BBAY as an alternative to the SAY for monitoring annual loan limit progression. Unlike an SAY, a BBAY is not a fixed period that begins and ends at the same time each year. Instead, a BBAY’s beginning and ending dates depend on the individual borrower’s enrollment.

For programs with an SAY, a BBAY must include the same number of terms as the SAY that would otherwise be used (not including any summer “trailer” or “header”). For example, if the SAY includes three quarters (fall, winter, spring), a BBAY would consist of any three consecutive terms. A BBAY may include terms the borrower does not attend if the borrower could have enrolled **at least half-time** in those terms, but (unlike an SAY) it must begin with a term in which the borrower is actually enrolled (even though the borrower may be enrolled less-than-half-time for the first term and not eligible for a loan for that term). Also, any minisessions (summer or otherwise) that run consecutively within a term **must** be combined and treated as a single term.

Like an SAY, a BBAY must meet the minimum FSA requirements for an academic year. However, a BBAY that includes a summer term may include fewer than 30 weeks of instructional time or fewer credit hours than the minimum number required for an SAY. This is because a summer term may be shorter than a standard term in an SAY, but is recognized as academically equivalent to a standard term when used as one of the terms in a BBAY. (NOTE: This exception applies only to a BBAY used as an alternative for a program with an SAY.)

You may use BBAYs for all borrowers, only for borrowers in certain programs, or on a borrower-by-borrower basis. For example, you could use a BBAY for borrowers enrolled in a program that begins in a term other than the first term of the SAY. You can even alternate BBAYs and SAYs for a borrower, provided the academic years don't overlap. This treatment may allow a borrower to receive another loan sooner than would be allowed under an SAY standard.

As with an SAY, the annual loan limit applies to the BBAY. Once the calendar period associated with all of the terms in the BBAY has elapsed, a borrower regains eligibility for a new annual loan limit.

### **Standard-term programs and nonstandard term SE9W programs without a SAY—BBAY 2**

If a program with standard terms or nonstandard SE9W terms is not offered in a traditional academic year calendar (SAY), a BBAY **must** be used. If the program uses semesters or trimesters, a BBAY generally consists of any two consecutive terms (similarly, with quarters, any three consecutive terms). If the program uses SE9W nonstandard terms, a BBAY consists of the number of consecutive terms that coincide with the weeks of instructional time in the program's academic year.

As with the optional BBAY that may be used for programs with an SAY, the BBAY may include terms that a borrower does not attend (as long as the borrower could have enrolled at least half-time in those terms), but it must begin with a term in which the borrower is actually enrolled (even though the borrower may be enrolled less-than-full-time for the first term and not eligible for a loan for that term). Unlike the optional BBAY for programs offered in an SAY, there is no exception to the minimum FSA academic year requirements for a BBAY that includes a summer term: the BBAY for standard-term programs that are not offered in a traditional academic calendar, or a comparable calendar if SE9W nonstandard terms, must always include enough terms to meet the minimum FSA academic year requirements for weeks of instructional time.

The annual loan limit applies to the BBAY. Once the calendar period associated with all of the terms in the BBAY has elapsed, a borrower regains eligibility for a new annual loan limit.

### **Individualizing academic progress in BBAYs**

In many clock-hour, non-term, and nonstandard-term programs, students are allowed to progress at an individual pace. For example, a school that defines its academic year as 900 clock hours and 26 weeks of instructional time offers a 900 clock-hour program that most students complete in 26 weeks. However, one student might complete 900 clock hours in 22 weeks and another in 30 weeks. You do not have to prorate the loan limit for the occasional student who completes the program in less than 26 weeks. (Note that this policy applies only to programs that are exactly one academic year in length. If a program is longer than an academic year, proration may be required for a loan covering the remaining portion of the program if a student completes more than the minimum number of hours during the first 26 weeks of instructional time. See loan limit proration example 3 later in this chapter).

## Standard Term, Credit-Hour Programs Not Using a Traditional Academic Year Calendar—BBAY 2

Springfield Academy also has a program that measures academic progress in credit-hours and uses 15-week semesters, but is not offered in a traditional academic year calendar (SAY). New students begin the program each month, and a 15-week semester begins at that time for that cohort of students. The school must use a BBAY to monitor annual loan limits. A BBAY consists of any two consecutive semesters, beginning with a semester in which a student is enrolled:

| Semester #1<br>(begins program) | Semester #2 | Semester #3  | Semester #4<br>(not enrolled) | Semester #5  | Semester #6 |
|---------------------------------|-------------|--------------|-------------------------------|--------------|-------------|
| Year 1: BBAY                    |             | Year 2: BBAY |                               | Year 3: BBAY |             |

## Clock-hour, non-term credit-hour, and nonstandard-term programs that are not SE9W—BBAY 3

All clock-hour programs, non-term credit-hour programs, and nonstandard-term programs with terms that are not SE9W must use a BBAY that meets the minimum requirements for an academic year. That is, the BBAY must contain at least 30 (or, for clock-hour programs, 26) weeks of instructional time and at least the minimum number of credit or clock-hours: for undergraduate programs, 24 semester or trimester hours, 36 quarter-hours, or 900 clock-hours; for graduate programs, the number of hours a borrower would complete under the school's full-time standard in the weeks of the FSA academic year, which must be a minimum of 30 weeks of instructional time, or, for clock-hour programs, at least 26 weeks of instructional time. This requirement also applies to a program that consists of both standard and nonstandard terms and that does not qualify to use an SAY.

The BBAY begins when a borrower enrolls and does not end until the later of the date the borrower successfully completes the hours in the academic year or the number of weeks of instructional time in the academic year.

Because a borrower must successfully complete the minimum number of hours or weeks of instructional time in an academic year (whichever comes later) before a new BBAY begins, a borrower's enrollment status may affect how soon the borrower regains eligibility for a new annual loan limit. For example, a borrower who is attending part-time will take longer to complete a BBAY than a full-time borrower. In contrast, an SAY or BBAY for a standard term program, or a nonstandard SE9W program ends when the calendar period associated with the terms in the SAY or BBAY has elapsed, regardless of how many credit-hours or weeks of instruction the borrower completed during the SAY or BBAY.

### BBAY 3 and programs with standard terms

If a program has standard terms and nonstandard terms and does not qualify to use an SAY, the program must use BBAY 3.

One common example is a program with a 4-1-4 calendar where the winter intersession is not combined with either the fall or spring semester (it is not permissible to ignore a student's enrollment in a winter intersession).

Another common example is a degree-completion program with 20-week nonstandard terms where students must also attend regular semesters to complete their degree (these programs can affect all degree-seeking students at an institution, depending on how they are structured).

## Clock-Hour, Non-term, and Nonstandard-Term Programs (Other Than SE9W Programs)—BBAY 3

### ***Example 1: Non-term credit-hour program***

A school offers a 48 semester-hour, 60 weeks of instructional time program with a defined academic year of 24 semester hours and 30 weeks of instructional time. A student could receive two loans for this program. The period of enrollment for the first loan would be the time needed for a student to successfully complete the first 24 hours and 30 weeks of instructional time. The period of enrollment for the second loan would be the time needed to complete the remaining hours and weeks of instructional time of the program.

A student does not become eligible for the second loan until the date that he/she successfully completes (passes) both 24 semester hours and 30 weeks of instructional time.

### ***Example 2: Nonstandard term, credit hour program, terms not substantially equal in length***

A school offers a 72 quarter-hour program with 60 weeks of instructional time and a defined academic year of 36 quarter-hours and 30 weeks of instructional time. Courses are offered in 2-week and 5-week terms. A student could receive two loans, one for the period in which the student successfully completes the first 36 hours and 30 weeks, and another for the remaining hours and weeks of the program.

Although this program uses terms and measures academic progress in credit hours, the terms are nonstandard terms that are not substantially equal in length. A student does not become eligible for the second loan until he or she has completed 36 quarter hours or 30 weeks of instructional time, whichever comes later, regardless of the number of terms that have elapsed. For instance, a student who successfully completes (passes) 33 quarter hours in the first 30 weeks of instructional time must complete an additional three quarter hours before receiving the second loan. A school would originate a loan through the term in which the student is expected to complete the hours and weeks of instructional time of the academic year.

### ***Example 3: Clock-hour Program***

Springfield Academy has an 1,800 clock-hour program with 52 weeks of instructional time, and defines its academic year as 900 clock-hours and 26 weeks of instructional time. The initial BBAY always begins with the student's actual enrollment date. An enrolling student may receive two Direct Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The period of enrollment for the first loan would be the time it will take the student to successfully complete (pass) 900 clock-hours and 26 weeks of instructional time. The period for the second loan would be the time it takes to successfully complete the final 900 hours and 26 weeks of instructional time. Note that the student cannot receive the second loan until he/she has successfully completed the first 900 hours of the program or 26 weeks of instruction, whichever comes later.

A student who completes the first 900 hours in less than 26 weeks must still complete 26 weeks of instructional time before a new BBAY begins and the student becomes eligible to receive another loan. In this case, the second loan period would be for the clock hours remaining and the weeks of instructional time to complete those hours. Similarly, a student who has completed fewer than 900 clock hours after 26 weeks of instructional time must successfully complete 900 hours before receiving another loan.



### Issues with grade-level progression

*The Federal Student Aid Handbook, Volume 3* provides further guidance on the following issues:

- The grade level for a transfer student is based on the academic credits your school accepts from the previous school. (However, if an associate's or bachelor's degree is required for entry into an undergraduate program at your school, you must use the 3rd-year loan limits for the student.)
- A student may receive more than one loan at the same grade level, provided he/she is making satisfactory academic progress. A school may not have a policy that sets a fixed limit on the number of loans that can be received at a grade level. For example, a school may not have a policy stating that a student in a 4-year program can never receive more than one full annual loan limit at the 1st-year level.
- To count remedial coursework, the school's official written policy must explicitly state that remedial coursework can be counted towards the student's grade level progression.
- Although the Eligibility and Certification Approval Report (ECAR) lists programs that are less than 2 years but more than 1 year in length as "1-year programs," students who have successfully completed the first year of these programs may borrow at the 2nd-year undergraduate annual loan limits.
- A school may not link two stand-alone 1-year programs to make students in one of the programs eligible for 2nd-year loan limits.
- In a 5-year program leading to a graduate or professional degree, a school may define the first 3 or 4 years as being at an undergraduate level, with the remaining years at the graduate level.

## GRADE LEVEL PROGRESSION

The annual loan limit for Direct Subsidized/Unsubsidized Loans increases as a student progresses in his/her studies. Generally, a student's grade level for loan limit purposes is set according to the school's academic standards. Progression to a higher grade level does not always coincide with the beginning of a new academic year. For example, a borrower in a standard term program (or a borrower in a program using nonstandard, substantially equal-terms of 9 or more weeks [SE9W] ) who completes only 12 semester hours during the first academic year could receive another loan when the calendar period associated with that academic year has elapsed. However, the borrower would still be classified as a first-year undergraduate at the start of the second academic year.

### *Grade level progression within the same academic year*

In standard term programs or nonstandard SE9W programs, a borrower who has already borrowed up to the annual limit within an academic year can receive additional loan funds if the borrower progresses to a grade level with a higher annual loan limit during that same academic year.

For instance, if a dependent borrower was classified as a 2nd-year undergraduate in the fall semester, he/she might have received a first disbursement of up to \$3,250 in Direct Subsidized/Unsubsidized Loan funds for a fall-spring loan. If the borrower achieved 3rd-year academic status based on the coursework completed in the fall semester, the borrower would now be eligible for the \$7,500 annual limit that applies to 3rd year and beyond dependent undergraduates. If the borrower had sufficient financial need, you could disburse the difference between the amount the borrower already received and the new annual limit in the spring term ( $\$7,500 \text{ minus } \$3,250 = \$4,250$ ).

In all cases, the borrower may borrow the difference between the amount already borrowed within the academic year and the borrower's new loan limit. Usually, the increase in the loan amount can be made as an adjustment to the borrower's existing loan rather than making a new loan. For a clock-hour program, non-term program, or nonstandard-term program that is not SE9W, the borrower will never progress to a higher grade level within an academic year. In a clock-hour program, non-term program, or nonstandard-term program that is not SE9W that is longer than an academic year, the borrower moves to a higher grade level only when he or she completes the credit or clock hours and weeks of instructional time in the BBAY.

## Increasing the Loan When Grade Level Changes During Academic Year

The best method for increasing the amount of an existing loan may depend on your school's software. Here are two commonly used methods:

1. Originate a new loan at the new grade level for the applicable amount (the difference between the new loan limit and the amount of the first loan). The loan period for the new loan must correspond to the term(s) during which the student qualifies for the higher loan limit (that is, it may not include a prior term when the student was classified at a lower grade level). You could also choose to cancel any pending disbursements of the first loan and originate a new loan for an amount equal to the canceled disbursements of the first loan plus the additional amount for which the student is eligible due to the grade level change.
2. Adjust the amount of the current loan. Change the grade level in the loan record and increase the amount of the existing loan to the new amount.

With either option, the student's remaining loan eligibility must be calculated using only the costs and estimated financial assistance for the term(s) during which the student qualifies for the higher loan limit.

### *Grade level progression: clock-hour, non-term credit-hour, and other non-term programs*

In contrast, progression to a higher grade level and the beginning of a new academic year for loan limit purposes always happen at the same time for a borrower in a clock-hour program, non-term program, or nonstandard-term program in which the terms are not substantially equal in length or one or more terms have less than nine weeks of instructional time. In order to advance to the next grade level in such a program, for annual loan limit purposes, a borrower must successfully complete both the weeks and hours in the program's FSA academic year, i.e., at least 30 weeks of instructional time (or, for clock-hour programs, at least 26 weeks) and the credit or clock hours in the academic year, whichever comes later. For instance, a first-year borrower in a 2-year non-term program who earns 36 quarter-credits over 24 weeks of instructional time cannot progress to the next grade level until another 6 weeks of instructional time are completed (the point at which the loan period for that academic year will be completed).

If a program can normally be completed in one year of full-time study, a borrower in that program can never receive more than the first-year annual loan limit in any given year, no matter how long it takes the borrower to finish. Similarly, a borrower in a two-year program can never receive more than the 2nd-year annual loan limit for an academic year.

### **Grade level progression**

While the law defines minimum coursework for an academic year, it doesn't define how much coursework a student must complete to progress from one grade level to another. Unless a student's program of study or a school's academic standards clearly specify when this grade-level progression takes place, a reasonable approach would be to base grade levels on the number of credits required for the program, divided by the number of academic years it takes a typical student to earn that number of credits. For instance, if your school has a baccalaureate program that requires 120 semester hours of work and is typically completed in four academic years, then you might use a standard of 30 hours completed at each grade level.

### Remedial work & grade level

Remedial coursework can be counted towards the student's grade level progression, but only if the school's written and officially approved academic grade level progression policy specifies that remedial coursework can be counted for this purpose. Example: A school requires that the student complete 30 semester hours to progress to second-year grade level, and specifies that up to 10 of the hours may be in the form of remedial coursework.

### No policy of denying loans

A school may not have a policy of originating loans for amounts that are less than a borrower's eligibility. On a case by case basis, a school may refuse to originate a loan for an individual student or originate a loan for an amount less than an individual borrower's maximum eligibility. However, if a school takes one of these actions on a case-by-case basis, the decision must be provided to the borrower in writing and supporting documentation must be kept in the student's file.

### Loan limits and work in a prior certificate program

A school may not link two stand-alone 1-year programs by making one a prerequisite for admission to the other so that students beginning the second 1-year program could be classified as second-year students for loan limit purposes. However, hours or credits earned in a prior certificate program could be used to classify a transfer student at a grade level higher than grade level 1 if the student transfers into a program that is greater than one academic year in length and the new school accepts a year's worth of credits/hours from the prior program. For instance, if a school admits a transfer student from a certificate program and accepts 900 clock hours that the student earned toward its 1,500-hour program, the student could be eligible for the 2nd-year loan limits if other students in the program are eligible for 2nd-year loan limits after completing the first 900 hours of the program.

## New annual amount for same grade level

For both standard-term programs and SE9W programs, if a borrower is enrolled at the same grade level after a full academic year has elapsed, the borrower may be eligible for a new annual maximum amount. For instance, if the borrower maintains satisfactory academic progress, he or she could conceivably receive two Direct Loans at the maximum annual loan limit for a first-year undergraduate while completing the first year of the program.

If the borrower is maintaining satisfactory academic progress, your school is not permitted to have a general policy that limits the number of times the borrower can receive the maximum annual loan limit at one grade level.

## Transfers and grade level

If you're awarding a Direct Loan to a borrower who is transferring from a program at another school to a program at your school that is greater than one academic year in length, you may use the loan limits for a borrower in the 2nd-year or higher level of study if your school classifies the borrower at that level based on the number of academic credits it accepts from the prior school, or based on the granting of advance standing in the new program. Note, however, that if an associate or bachelor's degree is required for entry into a program at your school, you must use the 3rd-year loan limits for a borrower who transfers to that program.

Note that the "Eligibility and Certification Approval Report" (ECAR) lists "one-year" as the highest educational program offered by the school if its longest program is one year or more but less than two years in length. Borrowers in such programs can be paid as 2nd year borrowers even though the ECAR lists the school's highest offering as "one-year." For instance, if a borrower is enrolled in a 1,500-hour program, he/she would be eligible for the 2nd-year loan limits after completing 900 clock-hours and 30 weeks of instruction (or, for clock-hour programs, at least 26 weeks). However, the loan limit would have to be prorated for the remaining hours of the borrower's program (see next section).

## PRORATING ANNUAL LOAN LIMITS FOR UNDERGRADUATE DIRECT SUBSIDIZED/UNSUBSIDIZED LOANS

The annual maximum loan amount an undergraduate borrower may receive must be prorated when the borrower is enrolled in a program that is:

- ♦ shorter than a full academic year; or
- ♦ one academic year or more in length, but is in a remaining period of study that is shorter than a full academic year.

Bear in mind that loan limit proration determines the maximum loan amount that a borrower may borrow for a program or remaining balance of a program, not the loan amount that the borrower actually receives. In some cases, the actual loan amount that a borrower is eligible to receive (based on costs, EFC, and other aid) may be less than the prorated loan limit.

### *Prorating loan limits for programs of study shorter than a full academic year*

If an academic program is shorter than a full academic year in length, you must multiply the applicable loan limit(s) by the *lesser* of —

$$\frac{\text{Semester, trimester, quarter, or clock-hours enrolled in program}}{\text{Semester, trimester, quarter, clock-hours in academic year}}$$

**or**

$$\frac{\text{Weeks enrolled in program}}{\text{Weeks in the academic year}}$$

The result is the prorated annual loan limit for that program. (You may express these fractions as decimals to see more easily which is less or to calculate the prorated limit.)

### *Prorating loan limits for remaining periods of study shorter than an academic year*

You must also prorate loan limits for borrowers enrolled in remaining periods of study shorter than an academic year. This circumstance can occur when a borrower is enrolled in a program that is one academic year or more in length, but the remaining period of study needed to complete the program will be shorter than an academic year.

Proration is required only when it is known in advance that a borrower will be enrolled for a final period of study that is shorter than an academic year. If a borrower originally enrolls for a final period of study that is a full academic year in length but completes the program early in less than a full academic year, it is not necessary to retroactively prorate the annual loan limit.

#### **Direct Loan proration**

34 CFR 685.203(a), (b), and (c)

#### **When and when not to prorate**

You must prorate a Direct Subsidized/Unsubsidized Loan limit for an undergraduate borrower if:

- the academic program is shorter than an academic year; or
- the student's remaining period of study is shorter than an academic year.

Direct Subsidized/Unsubsidized Loan limits are prorated only in these two situations. Loan limits are not prorated based on a student's enrollment status, such as when a student is enrolled less than full-time or is enrolled for a period of less than a full academic year that is not a remaining period of study. In addition, loan limits are not prorated for students enrolled in graduate or professional level programs.

Loan proration requirements also do not apply to loans made to students taking preparatory coursework or coursework necessary for teacher certification. The annual loan limit must be prorated only when a student is enrolled in a program or remaining portion of a program that is shorter than an academic year. Students taking preparatory coursework or coursework needed for teacher certification are not enrolled in a program.

#### **Note on fractions and decimals for prorating Direct Loans**

It is acceptable to convert the fraction to a decimal and then multiply the annual loan limit by the decimal, but this conversion is not a requirement. You may still choose to multiply the annual loan limit by the original fraction. However, you should be consistent in the method you use since the fraction and decimal calculations sometimes result in slightly different prorated loan limits. The decimal method will generally—if not always—result in an amount that is equal to or slightly higher than the amount calculated using the original fraction.

### Using school's definition of academic year if greater than the FSA minimum

A school may choose to define its academic year as longer in weeks or hours than the minimum statutory requirements. If so, then it's the school's standard—not the statutory minimum—that applies when determining whether a program or a final period of study is shorter than an academic year.

### Prorating the annual loan limit for borrowers enrolled in remaining portions of term-based programs

A student who is enrolled in a 4-year program that is offered in a Scheduled Academic Year consisting of three quarters plus a summer "trailer" has completed four academic years of study and received four Direct Loans. The student needs to attend an additional quarter term to complete the program requirements. The final quarter term would fall in a new academic year, and thus the annual loan limit would have to be prorated because the remaining period of study (a single quarter) is less than a full academic year.

A student who is enrolled in a 2-year program without a Scheduled Academic Year where the FSA academic year covers two 15-week semesters has completed two academic years of study but needs to return for an additional semester to complete the program requirements. Again, the loan limit would have to be prorated if the student receives a loan for the final semester.

In a standard term program, or a credit-hour program using nonstandard SE9W terms, a remaining period of study is considered shorter than an academic year if the remaining period contains fewer terms than the number of terms covered by the school's FSA academic year. For programs that are offered in a Scheduled Academic Year, the number of terms covered in the school's FSA academic year does not include any summer "header" or "trailer" term.

In a *clock-hour program, non-term program, or a program with nonstandard terms that are not SE9W*, a remaining period of study is considered less than an academic year for this purpose if the remaining period consists of fewer clock or credit hours than the program's defined FSA academic year.

For all types of programs, where there is a remaining portion less than an academic year, the annual loan limit for the borrower's grade level is multiplied by the following fraction to determine the prorated loan limit:

$$\frac{\text{Semester, trimester, quarter, or clock-hours enrolled in program}}{\text{Semester, trimester, quarter, clock-hours in academic year}}$$

Unlike proration for programs that are shorter than an academic year, there is no comparison of weeks and hours. *Only the credit or clock-hours that the borrower is scheduled to attend or is actually attending at the time of origination are used in the calculation.*

Any additional Direct Unsubsidized Loan amount is also prorated.



## Proration Examples for Programs Shorter Than an Academic Year

### Example 1

|   |  |
|---|--|
| Program= 400 clock hours, 12 weeks of instructional time        |  |
| Academic year = 900 clock hours, 26 weeks of instructional time |  |

Jill is a dependent student enrolled in a 12-week program at Hancock Career College. HCC defines the academic year for this program as 900 clock-hours providing 26 weeks of instructional time. Measured in clock-hours, Jill's program is 400 clock-hours long.

To determine the maximum loan amount she can borrow, convert the fractions based on weeks ( $12/26$ ) and hours ( $400/900$ ) to decimals ( $12/26 = .46$  and  $400/900 = .44$ ). Multiply the smaller decimal (.44) by the first-year annual loan limits for a dependent undergraduate: \$3,500 combined subsidized/unsubsidized and \$2,000 additional unsubsidized.

$\$3,500 \times .44 = \$1,540$  combined subsidized/unsubsidized

$\$2,000 \times .44 = \$880$  additional unsubsidized

The maximum combined subsidized and unsubsidized loan amount Jill can borrow for the program is \$2,420, but no more than \$1,540 of this amount may be in subsidized loans.

### Example 2

|   |  |
|---|--|
| Program = 24 quarter hours; 20 weeks of instructional time      |  |
| Academic year = 36 credit hours, 30 weeks of instructional time |  |

Morgan is an independent student enrolled in a program at Hancock Career College that provides 24 quarter-hours and 20 weeks of instructional time. HCC defines the academic year for this program as 36 quarter-hours and 30 weeks of instructional time. To determine the maximum loan amount she can borrow, convert the fractions based on weeks ( $20/30$ ) and quarter-hours ( $24/36$ ) to decimals ( $20/30 = .67$  and  $24/36 = .67$ ). In this case, the two decimals are equal. Multiply the decimal by the first-year annual loan limits for an independent undergraduate:

$\$3,500 \times .67 = \$2,345$  combined subsidized/unsubsidized

$\$6,000 \times .67 = \$4,020$  additional unsubsidized

The maximum combined subsidized and unsubsidized Direct Loan amount Morgan can borrow for the program is \$6,365, but no more than \$2,345 of this amount may be in subsidized loans.



## Proration examples for remaining period of study shorter than an academic year, contd.

### **Example 1: Academic year contains 3 quarters** **Remaining period = 1 quarter**

|      |        |        |
|------|--------|--------|
| Fall | Winter | Spring |
|------|--------|--------|

|      |        |        |
|------|--------|--------|
| Fall | Winter | Spring |
|------|--------|--------|

|      |        |        |
|------|--------|--------|
| Fall | Winter | Spring |
|------|--------|--------|

Scott has attended 6 quarters in a 2-year program at Vandenberg Community College, but to finish the program, he needs to attend an additional quarter as a half-time student (6 quarter hours). Scott is a dependent undergraduate student, and BCC defines its academic year (covering three quarters) as 36 quarter hours and 30 weeks of instructional time.

To determine the prorated loan limit for Scott's remaining period of study (the final fall quarter), convert the fraction based on the hours that Scott is expected to attend and the hours in the academic year to a decimal ( $6/36 = .17$ ).

Multiply this decimal by the second-year dependent undergraduate annual loan limits:  $\$4,500 \times .17 = \$765$  combined subsidized/unsubsidized  $\$2,000 \times .17 = \$340$  additional unsubsidized

The total prorated loan limit for the remaining period of study is \$1,105, not more than \$765 of which may be subsidized.

### **Example 3: Academic year contains 900 clock hours and 26 weeks; Program = 1800 clock hours**

Year 1: Student completes 1,040 clock hours in 26 weeks

Year 2: 750 clock hours remaining in program

Coker Career College has an 1,800 clock-hour program and defines its academic year as 900 clock-hours and 26 weeks of instructional time. Sally, a dependent undergraduate student, successfully completes the first 900 clock-hours of the program in 22 weeks of instructional time. However, she must complete an additional four weeks of instructional time before she may receive a second loan. After 26 weeks of instructional time have elapsed, Sally has successfully completed 1,040 clock hours. She may then receive a second loan, but the loan limit must be prorated based on the number of clock hours remaining in her program at this point.

To determine the prorated loan limit for Sally's second loan, convert the fraction based on the number of clock-hours remaining to a decimal ( $760/900 = .84$ ). Multiply this decimal by the second-year dependent undergraduate annual loan limits:

$\$4,500 \times .84 = \$3,780$  combined subsidized/unsubsidized

$\$2,000 \times .84 = \$1,680$  additional unsubsidized

The total prorated loan limit for the remaining period of study is \$5,460, not more than \$3,780 of which may be subsidized.

### **Example 2: Academic year contains 2 semesters** **Remaining period = 1 semester**

|      |        |
|------|--------|
| Fall | Spring |
|------|--------|

|      |        |
|------|--------|
| Fall | Spring |
|------|--------|

Scott transfers to a BA program at Reiff College. By taking 18 hours a semester, he will be able to graduate in the fall term of his second year. Scott is a dependent undergraduate student, and Reiff defines its academic year (covering two semesters) as 24 credit hours and 30 weeks of instructional time.

To determine the prorated loan limit for the remaining period of study (the fall semester of the second academic year), convert the fraction based on credit hours to a decimal ( $18/24 = .75$ ). Multiply this decimal by the fourth-year dependent undergraduate annual loan limits:

$\$5,500 \times .75 = \$4,125$  combined subsidized/unsubsidized

$\$2,000 \times .75 = \$1,500$  additional unsubsidized

The total prorated loan limit for the remaining period of study is \$5,625, not more than \$4,125 of which may be subsidized.

### **Example 4: Remaining period of study with scheduled period of nonenrollment**

|      |        |        |
|------|--------|--------|
| Fall | Winter | Spring |
|------|--------|--------|

McNutt Institute has an academic year that covers three quarters: fall, winter, and spring. Milton will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter.

Because the fall quarter is in the same academic year as Milton's final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which he will not enroll. McNutt Institute may award Milton a single loan for the fall and spring quarters (costs for the winter quarter must be excluded) or separate loans for fall and spring. In either case, the annual loan limit must be prorated because Milton's final period of study (two terms) is shorter than an academic year. If Milton decided to enroll for the winter quarter on a less-than-half-time basis, his remaining period of study (three terms) would be equal to a full academic year and proration would not be required, even though he would have no loan eligibility for the winter quarter.

## REMAINING LOAN ELIGIBILITY FOR BORROWERS WHO TRANSFER OR CHANGE PROGRAMS

The annual loan limits are based on an academic year. If a borrower transfers from one school to another school or changes to a different program at the same school and there is an overlap of academic years, this overlap may affect the amount that the borrower is eligible to borrow at the new school or for the new program.

An overlap in academic years exists at the new school if the academic year at the new school (or the academic year for the new program at the same school) begins before the calendar end date of the academic year at the prior school or for the prior program. In the case of a transfer student from another school, you may obtain documentation from the prior school of the specific beginning and ending dates for the prior academic year or may consider the prior academic year to have begun with the starting date of the borrower's most recent loan period (as shown in NSLDS) and to have ended 30 calendar weeks later. (However, if the most recent loan period was more than 30 calendar weeks in length, you must consider the academic year at the prior school to have ended on the last date of the prior loan period.)

The same principles for borrowers who transfer from one school to another school would apply in the case of borrowers who change programs within the same school.

### *Programs with standard terms or nonstandard SE9W terms (SAY, BBAY 1, or BBAY 2)*

If a borrower enrolls in a program with standard terms (or nonstandard SE9W terms) after already having taken out a loan at another school with an overlapping academic year, the borrower initially may not receive more than the annual loan limit minus the amount received at the prior school.

However, the borrower may borrow again for a subsequent term within the same academic year at the new school if the term begins after the end of the academic year at the prior school. For a subsequent term that begins after the end of the prior school's academic year, but within the initial academic year at the new school, the borrower may borrow up to the difference between the applicable annual loan limit and the amount already received for the new school's academic year.

## Remaining Loan Eligibility Upon Transfer/Program Change

### ***Standard term***

A student receives a \$2,000 Direct Subsidized Loan at School A for a loan period from May 1 to August 31. The student, a dependent undergraduate, transfers to a program at School B in September and is admitted at grade level 2. The student requests a loan for the fall and spring semesters (September–May). School B makes a determination that the academic year at School A ended on November 27 (30 weeks after the start of the loan period at School A).

Because the academic year at School B begins before the end of the academic year at School A, the student may initially receive a maximum of \$4,500 for the fall semester at School B, not more than \$2,500 of which may be subsidized. This amount represents the difference between the annual loan limit of \$6,500 (maximum \$4,500 subsidized) and the amount received at School A (\$2,000 subsidized) for the overlapping academic year period. Assuming that the student receives the maximum of \$4,500 for the fall semester, at the start of the spring semester in January (after the end of the academic year at School A), the student may borrow up to an additional \$2,000, the difference between the dependent undergraduate 2nd-year annual loan limit and the amount already borrowed for the fall–spring academic year at School B. If the student received the maximum \$2,500 in subsidized loan funds for the fall term, the additional \$2,000 would be limited to unsubsidized.

As an alternative, School B could choose to place the student on a BBAY schedule beginning with the spring semester. The student would then be eligible to borrow up to the full annual loan limit for a spring/summer BBAY.

### ***Clock-hour program***

For example, a student receives the first disbursement (\$2,750) of a Direct Unsubsidized Loan at School A for a loan period from April 1 to December 31. (For purposes of this example, assume that the student has no financial need for a Direct Subsidized Loan; all loan amounts in the example represent Direct Unsubsidized Loans.) The student, a dependent undergraduate, leaves school A in June and transfers to an 1,800 clock-hour program at School B, and School B does not accept any transfer hours from School A. Because the academic years at the two schools overlap, the maximum loan amount that the student may receive for the first academic year of the program at School B (900 clock-hours and 30 weeks of instructional time) is \$2,750, the difference between the first-year annual loan limit (\$5,500) and the amount received at School A (\$2,750).

If School B accepts some hours on transfer, it would originate a loan for the remaining balance of the annual loan limit (\$2,750) for the period covering the remaining portion of the School A loan period. After this remaining period is completed, the student would progress to a new annual loan limit.

*For clock-hour and non-term programs, and programs with nonstandard terms that are not SE9W (use BBAY 3)*

**Transfer into a new program at the same institution, or transfer to a new institution**

If a student withdraws from a credit-hour, non-term program or a clock-hour program without completing the period and:

- ♦ reenters the same program at the same institution more than 180 days after withdrawal, receiving credit for hours previously earned; or
- ♦ transfers into another credit-hour non-term or clock-hour program at any time (either at the same institution or at a new institution) and the institution accepts all or some of the hours earned in the prior program, then the student starts a new payment period when he or she reenters or transfers.

In calculating awards for a student who reenters the same program after 180 days, reenters in a new program, or transfers to a new institution, the institution treats the hours remaining in the program as if they are the student's entire program. The number of payment periods and length of each payment period are determined by applying the rules in the appropriate part of the definition of a payment period to the hours remaining in the program upon transfer or re-entry.

A school may consider a student who transfers into another program at the same school to remain in the same payment period if five conditions are met:

1. The student is continuously enrolled at the school.
2. The coursework in the payment period the student is transferring out of is substantially similar to the coursework the student will be taking when he or she first transfers into the new program.
3. The payment periods are substantially equal in length in weeks of instructional time and credit hours or clock hours, as applicable.
4. There are little or no changes to the institutional charges to the student for the period.
5. The credits from the payment period the student is transferring out of are accepted toward the new program.

**Re-entry after 180 days**

34 CFR 668.4(f)

This provision addresses situations where a student's transfer to a new program at the same institution results in very little change to the student's academic circumstance, e.g., a change that is really nothing more than a change in majors. The Department believes that when this occurs, it is appropriate to spare the school the burden of withdrawing a student, performing a Return calculation, and returning Title IV grant or loan funds, only to award them again for the new payment period(s).

If a school treats the student as one who is not withdrawing from the institution, no Return calculation is performed, and the student continues in the same payment period he started in with his original program.

### **Eligibility of transfer students for additional Title IV funds**

Generally, at a clock-hour or non-term credit-hour school, a student can be paid again for clock hours or credit hours that he or she has already completed at that school only if he or she has completed a program and reenrolls to take that program again or to take another program. In addition, when a student reenters a clock-hour or credit-hour non-term-based program after 180 days, the student may be paid for repeated courses.

For example, a student who withdraws after completing 302 clock hours of a 900 clock-hour program has 148 hours remaining in the 450-hour payment period. The student reenrolls after 180 days in the same program and receives credit for 100 hours. The program length for purposes of determining the new payment periods is 800 clock hours (the remainder of the student's program), so the new payment periods are 400 hours and 400 hours (the 302 hours completed and the 148 hours that remained do not apply). Any reduction in the payment would be based on whether the student's scheduled award or annual loan limits are exceeded. (If the student in this example received no credit for previously completed hours, the student's program length for purposes of determining the payment periods would be 900 clock hours.)

However, a transfer student's eligibility for additional Title IV funds may be subject to a variety of limitations associated with the aid the student received during the student's most recent period of attendance. For example, in the Pell Grant Program, a student may never receive more than his or her Pell scheduled award for an award year. In the Federal Direct Loan program, the application of the annual loan limits imposes additional limitations on a borrower's eligibility for funds when the borrower transfers (see *Loan Principles* on next page).

## LOAN PRINCIPLES APPLICABLE TO TRANSFER AND RE-ENTRY AT NON-TERM SCHOOLS

1. For non-term programs, a Borrower-Based Academic Year (BBAY) must be used to monitor annual loan limits. For a student who transfers or reenters a program, the loan period certified must be the lesser of the:
  - academic year,
  - program, or
  - remaining balance of a program of study.
2. A school may originate a loan for a period that exceeds 12 months.
3. When we say balance, we mean the borrower's annual loan limit, less any amount previously borrowed for the same academic year, plus any amount returned per 34 CFR 668.22.

For a transfer student, when an overlap exists between the borrower's original loan period and the borrower's new period of attendance, or the academic years of the two schools, the borrower is eligible to receive a loan for an amount that does not exceed the remaining balance of the student's annual loan limit. The new school may certify or originate the loan for the remaining portion of the program or academic year. **The borrower is not eligible for a new loan until the original loan period and original academic year have ended.**

Note that if the original academic year is unknown, a school must assume the previous school had an academic year of 30 weeks.

A receiving school that accepts fewer credits or clock hours than the student successfully completed at his or her prior school may, if it can document that the student successfully completed additional credits or clock hours, count those hours as completed hours in the student's loan period.

Note that when we say successfully completes, we mean that the student earns a passing grade or otherwise receives credit for the course.

If there is no overlap, the borrower is immediately eligible for a new annual loan limit. The receiving school can certify the borrower for a loan period that corresponds to its academic year or the entire balance of the program. If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

5. When certifying a loan for returning student for a new BBAY, the Cost of Attendance may include only those costs associated with the period for which the loan is certified. It may not include any costs used in certifying the previous loan unless those costs represent charges for which funds were returned to the Department or refunded to the student, subsequent to the previous withdrawal.





### Loan Principles, continued

6. When a student reenters the same program within 180 days and before the end of the student's initial loan period, a school can change the original loan period end date and reschedule the second disbursement. In this case, the student is held to the same disbursement requirements that applied initially (e.g., for one additional disbursement, the student must successfully complete one-half the coursework and one-half the weeks of instructional time in the loan period before he or she can receive the second disbursement).
7. When a student reenters the same program within 180 days and before the end of the student's initial loan period, if the school can originate a loan with a new loan period that begins on the date the borrower returns to school and extends to either the balance of the original loan period or balance of the program, whichever is shorter, the student is eligible to receive only the balance of the loan, and it must be disbursed in multiple disbursements.

**The borrower is not eligible for a new loan until the original loan period and original academic year have ended.** If some portion of the program remains after the completion of the new loan period, the school could certify a new loan for that portion of the program. If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

8. If a student reenters a program after the end date of the initial loan period or BBAY, a school may certify a new loan for either the balance of the program or academic year, whichever is shorter. If the portion of the program that remained was less than an academic year, the loan would be subject to proration.

### Borrower completes a program and starts another at the same institution

A borrower completes a program at your school and then begins a new program at your school, and the borrower's last loan for the completed program is for less than an academic year. In this case, you may originate the loan for the remainder of the academic year for the new program. You may originate the loan for an amount that does not exceed the remaining balance of the borrower's annual loan limit at the loan level associated with the new program.

## DIRECTIONS FOR ADJUSTING DIRECT LOANS

If a student who ceased attendance for a period in which he or she received a Direct Loan returns to school within the time that regulations require that his or her Title IV aid be redisbursed, a school must submit a change record to the Common Origination and Disbursement (COD) system that:

- ♦ adjusts the amount of the loan to that appropriate to the enrollment status at which the student has reenrolled;
- ♦ adjusts the academic year and loan period (award period) to the student's new anticipated completion date; and
- ♦ changes the disbursement dates to reflect when disbursements actually occur.

If a school needs to submit a change record after the closeout date for an award year (the last processing day in July of the year following the award year of which the loan was originated), the school will need to request an extension to the established data submission (closeout) deadline.

This can be done through the COD website at

**<https://cod.ed.gov/>**

Authorized school users must log on to the website, select the “School” menu and then select “Request Post Deadline/Extended Processing” on the left side. Users then –

- ♦ select the correct award year and program for the request;
- ♦ choose “Re-entry within 180 days” from the drop down menu as the reason code;
- ♦ provide an explanation for the request; and
- ♦ then “Submit”.

Schools will be notified if/when the request has been approved.

**Inadvertent Overborrowing**

GEN-13-02

**Exceeding loan limits**

34 CFR 6668.32(g)(2)

**Regaining eligibility**

34 CFR 668.35(d)

**Excess Borrowing that is not Inadvertent**

Borrowing in excess of annual or aggregate loan limits is not considered to have been inadvertent if there is any evidence that the overborrowing was the result of deliberate action on the part of the institution that determined the borrower's eligibility for the loan or on the part of the borrower who received the loan. If the institution determines that the overborrowing was the result of deliberate action on the part of another institution or the borrower, it must notify its Federal Student Aid School Participation Team and provide the necessary evidence. If the institution suspects fraud involving Federal student aid, it should call the Inspector General Hotline at **1-800-647-8733**.

**Servicer**—one of the Federal loan servicers or the holder or servicer of a commercially held FFEL Program loan, as applicable.

**EFFECTS OF INADVERTENT OVERBORROWING**

Under the Department's regulations governing eligibility for federal student financial aid, a student is not eligible to receive funds under any of the Title IV student aid programs if the student has received Title IV loan funds in excess of applicable statutory loan limits. However, as explained below, the regulations specify actions that a student who has inadvertently exceeded an annual or aggregate loan limit may take to regain Title IV eligibility.

We refer to the inadvertent receipt of loan funds in excess of annual or aggregate loan limits as "inadvertent overborrowing." (Note that inadvertent overborrowing is not the same as an overaward where a student's financial aid package exceeds the student's financial need or cost of attendance.)

A school must determine that a borrower's receipt of loan funds in excess of an annual or aggregate loan limit was inadvertent before the borrower may regain Title IV eligibility. Examples of circumstances that may have resulted in a student inadvertently exceeding an annual or aggregate loan limit include, but are not limited to: institutional processing errors, missing or incorrect National Student Loan Data System (NSLDS) information (e.g., capitalized interest incorrectly included in a borrower's aggregate outstanding loan balance), or unintentional student error or omission.

Generally, a school becomes aware that a student has exceeded an aggregate loan limit from flags (and comments) included in the student's Institutional Student Information Record (ISIR) – 2012-2013 ISIR Fields #430 – 433. Those flags are generated from information contained in NSLDS.

***Regaining Title IV eligibility after inadvertent overborrowing***

A student who has inadvertently exceeded annual or aggregate loan limits, and who is not in default on a Title IV loan, may regain Title IV eligibility if the student:

1. repays the excess loan amount in full; or
2. makes satisfactory arrangements to repay the excess amount.

If the loan that caused the inadvertent overborrowing is a Direct Loan or a Federal Family Education Loan (FFEL) Program loan that is held by the Department, the student must contact the federal loan servicer that services the loan to resolve the inadvertent overborrowing. If the loan that caused the inadvertent overborrowing is a FFEL Program loan held by a loan holder other than the Department (a "commercially held" FFEL Program loan), the student must contact the FFEL loan holder or the servicer for the loan to resolve the inadvertent overborrowing.

If a student who has inadvertently received loan funds in excess of an annual or aggregate loan limit wishes to receive additional Title IV aid, the school where the student wishes to receive the aid must identify the loan(s) that resulted in the overborrowing, discuss the overborrowing with the student, and resolve any discrepancies in the information that is obtained.

### **Repaying the excess amount**

If a student who has inadvertently overborrowed wishes to regain Title IV eligibility by repaying the excess loan amount, the student must contact the applicable servicer and comply with the servicer's repayment instructions. The school may assist the student in identifying and contacting the servicer, but the student, not the school, must make the payment of the excess loan funds in accordance with the servicer's instructions. Once the student has repaid the excess loan amount in full, the servicer will send the student confirmation that the excess loan amount has been repaid. The student or servicer must provide a copy of the repayment confirmation to the school. The inadvertent overborrowing is considered to have been resolved as of the date the servicer received the borrower's full payment of the excess loan amount.

### **Making satisfactory repayment arrangements to repay the excess loan amount (Reaffirmation)**

A student who has inadvertently overborrowed may regain Title IV eligibility by making satisfactory repayment arrangements acceptable to the servicer of the loan. The satisfactory repayment arrangement requirement can be met if the student agrees, in writing, to repay the excess amount according to the terms and conditions of the promissory note that supported the loan. This is called "reaffirmation." The reaffirmation process includes the following steps:

1. Either the institution or the student contacts the servicer and explains that the student has inadvertently overborrowed and wishes to reaffirm the debt.
2. The servicer sends the student a reaffirmation agreement.
3. The student reads, signs, and returns to the servicer the reaffirmation agreement.
4. The servicer sends the student confirmation that the reaffirmation agreement has been accepted. The student or servicer must provide a copy of the reaffirmation confirmation to the institution.
5. The inadvertent overborrowing is considered to have been resolved as of the date the servicer receives the student's signed reaffirmation agreement.

### **Consolidating loans as a means of resolving overborrowing**

If a borrower who inadvertently received more than the annual or aggregate Direct Loan limits has consolidated the loan(s) that caused the borrower to exceed the loan limit into a Direct Consolidation Loan (or, prior to July 1, 2010, into a FFEL Consolidation Loan), the consolidation loan is considered to be a satisfactory arrangement to repay the excess amount that restores the borrower's eligibility for FSA aid. However, the consolidation of an amount that exceeded the aggregate Direct Loan limits does not automatically make a student eligible for additional Direct Loan funds.

### **Effective date for regaining Title IV eligibility**

When an otherwise eligible student resolves an inadvertent overborrowing issue by one of the methods discussed above, the student regains eligibility for the Pell Grant, Campus-Based, TEACH Grant, and Iraq and Afghanistan Service Grant programs beginning with the payment period in which the issue was resolved, and regains Direct Loan Program eligibility retroactive to the beginning of the academic year in which the issue was resolved.

### ***Regaining eligibility for Title IV funds***

A student who regains Title IV eligibility after having exceeded an annual loan limit for an academic year is not be eligible to receive additional Direct Loan funds for that same academic year, but could receive other types of Title IV aid for the year.

The student may be eligible to receive additional Direct Loan funds for subsequent academic years if the student has remaining eligibility under the aggregate loan limits, depending on which aggregate limit was exceeded. A student who had inadvertently exceeded the combined subsidized/unsubsidized aggregate loan limit may not receive any additional Direct Subsidized Loans or Direct Unsubsidized Loans (though a dependent student's parent or a graduate or professional student could receive Direct PLUS Loans). However, if the student exceeded only the subsidized aggregate limit, the student could receive Direct Unsubsidized Loans up to the annual and aggregate maximums.

## Example: Resolving Cases of Overborrowing

### Example 1

A dependent undergraduate student who inadvertently exceeded the \$31,000 combined subsidized/unsubsidized aggregate loan limit may regain eligibility for other types of Title IV aid (e.g., Pell Grants, Campus-Based aid) by signing a reaffirmation agreement, but may not receive any additional Direct Subsidized Loans or Direct Unsubsidized Loans as a dependent undergraduate student. The student's parent may receive a Direct PLUS Loan. However, if a dependent student exceeded the \$23,000 subsidized aggregate loan limit but did not exceed the combined subsidized/unsubsidized aggregate loan limit, the student regains eligibility for Direct Unsubsidized Loan funds up to the student's annual loan limit for the academic year, subject to the combined subsidized/unsubsidized aggregate loan limit of \$31,000.

### Example 2

An independent undergraduate student who inadvertently exceeded the \$23,000 subsidized aggregate loan limit, but who has remaining eligibility for unsubsidized loans under the \$57,500 combined subsidized/unsubsidized aggregate limit, could regain eligibility for Title IV aid—including Direct Unsubsidized Loans—by signing a reaffirmation agreement. However, the student may not receive any additional Direct Subsidized Loans.





# Reporting Direct Loan Data Elements



## CHAPTER 4

*In this chapter, we'll be discussing the process through which you report a student's loans to the U.S. Department of Education.*

### COD COMMON RECORD OVERVIEW

Person, award, and disbursement data for the Direct Loan, Pell Grant, and Teacher Education Assistance for College and Higher Education (TEACH) Grant Programs is reported to the Common Origination and Disbursement (COD) System using the COD Common Record. One Common Record can contain data for multiple students and programs.

Most schools use PC-based software (such as EDEExpress) or vendor produced mainframe software to create and edit data that is then exported into the Common Record XML (Extensible Markup Language) document. Schools send and receive the COD Common Record using their Student Aid Internet Gateway (SAIG) mailboxes. Some schools contract with third-party servicers to perform these functions.

Schools may create or edit an individual student's record on the COD website. If changes are made on the COD website, schools have the option of receiving a Common Record web response, which is sent to schools' SAIG mailboxes and can be downloaded and imported into their financial aid systems. Check with your software vendor or system programmers to see if this import and update option is available on your system.

The COD Common Record consists of blocks of data that are grouped together by school, person, award, and disbursement. On the next page is a simplified graphic representation showing how data is organized within a Common Record document.

COD responds to schools' submitted records. This is known as a COD Common Record Response (response). The response indicates which data elements have been accepted and which have been rejected and why.

A rejected disbursement will cause the entire award, including its disbursements, to be rejected. A rejected award can cause the person to be rejected. For more details, see the COD Technical Reference.

## ORIGINATION

### Subsidized loans under \$200

If a student is eligible for less than or equal to a \$200 Direct Subsidized Loan, a school may choose not to originate the loan for that student. However, the school must include what would have been the subsidized loan amount as part of the student's unsubsidized loan.

### Refusing to originate a loan

A school may refuse to originate a Direct Loan or originate an amount that is less than a borrower's unmet need. Such a decision can only be made on a case-by-case basis, subject to the rules described in *The Federal Student Aid Handbook, Volume 1*.

### How the Actual Disbursement Date is used

The actual disbursement date that you report to COD is important because several regulatory requirements are based on that date.

- The school must notify a student of a loan disbursement no sooner than 30 days before the date of disbursement and no later than 30 days after the disbursement.
- The disbursement date determines when the student or parent assumes responsibility for the loan and the time frame during which the borrower has the right to cancel the loan.
- The disbursement date is used when calculating interest.

Note that the adjustments to the disbursement amount do not change the disbursement date—adjustments to dates and amounts are distinct and reported separately.

Origination is the process of determining eligibility, creating the award in the school's system, certifying the Direct Loan as well as the borrower's eligibility for the loan. The origination record is then sent into the COD System. See CFR 685.301 for more information on originating a loan.

Schools may create or edit an individual student's record on the COD website. If changes are made on the COD website, schools have the option of receiving a Common Record web response, which is sent to schools' SAIG mailboxes and can be downloaded and imported into their financial aid systems. Check with your software vendor or system programmers to see if this import and update option is available on your system.

Schools are required to send disbursement information in the loan origination record when first reported to the COD System. The amount of a loan is affected by other aid that you are awarding the student (Estimated Financial Assistance.)

The total award for each loan is divided into separate disbursements, based on the academic terms or payment periods in the student's program. Chapter 3 explains the rules for determining the payment periods and calculating disbursement amounts.

There are two types of disbursement dates submitted to the COD System: anticipated and actual.

1. An anticipated disbursement is projected to take place on the anticipated date reflected in the award. Anticipated disbursements are indicated in the COD System with a Disbursement Release Indicator (DRI) set to F = False. Anticipated disbursements can be reported any time after COD software for the new program year is available.
2. An actual disbursement takes place on the date the loan funds are made available (paid out) to the borrower, generally by crediting the student's school account. The actual disbursement date must be updated in the COD System if the actual disbursement date is different than the anticipated disbursement date. Actual disbursements are indicated in the COD System with a Disbursement Release Indicator (DRI) set to T = True and can be submitted no earlier than 7 days prior to the actual disbursement date, but must be transmitted to COD within 15 days of the actual disbursement date. Refer to CFR 668.1.64 for additional guidance.

As a general rule, disbursement dates must be within the loan period dates with two exceptions:

1. When a school elects to disburse up to 10 days before the first day of classes for that payment period. For example, if a school's loan period begins on September 1 for the fall term, the school can disburse up to 10 days prior to the first day of class, which would be August 22. This is reported to the COD System as the disbursement date. As a reminder, the disbursement date is the date funds are credited to the student's account or paid directly to the student or parent in the case of a PLUS Loan.
2. The late disbursement rule, which allows an institution to make a late disbursement up to 180 days beyond the loan period. While the funds may be disbursed after the end of the loan period, the loan must have been originated while the student was considered an eligible student.

A Direct Loan award is booked and passed to our federal loan servicing team once an award is accepted and linked to a Master Promissory Note (MPN), and has an accepted actual disbursement.

Disbursements to 1st-year student borrowers must take place 30 days after the academic begin date, unless your school has a cohort default rate less than 15% for the previous three years data was available.

A student in a non-term program must successfully complete coursework in a payment period to be eligible for a disbursement in the subsequent payment period.

Since financial aid software products have different features and different ways of handling data, refer to your software manual or contact the software developer for more specific information about the steps needed to create Direct Loan awards and adjust loan information after the initial submission.

The student's *Grade Level* (the "student level code" in COD) is used to determine the student's annual loan limit. This data should be taken from or verified against the student's academic information kept by your school.

The total award for each loan is then divided into separate disbursements, based on the academic terms or payment periods in the student's program. The disbursement data must also include anticipated or actual disbursement dates, and the sum of the disbursement amounts associated with those dates must equal the total Loan Amount. We will not repeat all of the payment period rules here, but, in general, you will need to make at least one disbursement of each loan per academic term or payment period.

### Earliest Disbursement Date

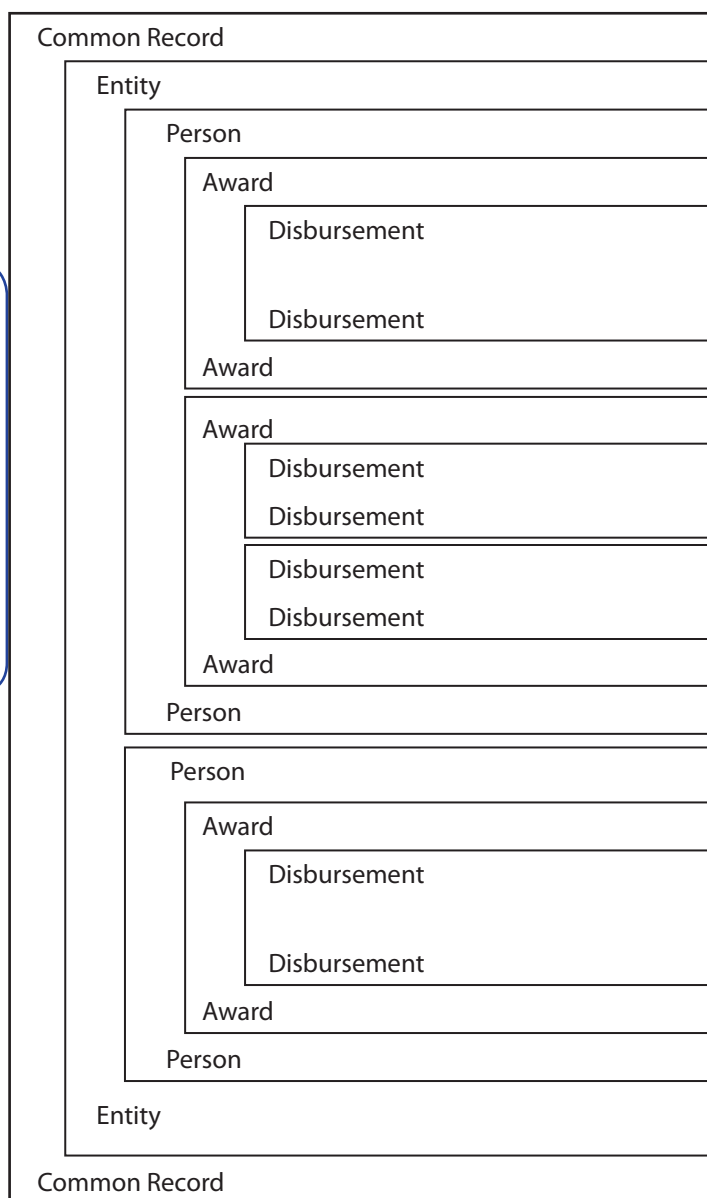
Many regulatory changes, including loan rebate and loan fee percentage changes, are dependent upon a loan's Earliest Disbursement Date (EDD). Accurate reporting of all disbursement dates is important because it impacts the loan's interest calculation. While COD processing edits are performed on both the anticipated EDD and the actual EDD, actual disbursement dates take precedence.

### Booking a Loan

To book a Direct Loan, COD must receive and accept:

1. a Master Promissory Note that has been completed and signed by the borrower,
2. an award record that will link to the MPN (identifiers for the borrower match on the MPN and the COD common record), and
3. a disbursement record with an actual disbursement

## Common Record Structure



**Entity** School

**Person** A unique individual

**Award** Pell, Direct Loan or TEACH Grant

All data elements between the opening and closing tags belong together. For example, the first person shown in the example has two awards. The second award has two disbursements.

## Sources of Data for Loan Records

## FAFSA/ISIR

- Student name, SSN, DOB
- Address
- Dependency status
- Citizenship status
- Default/overpayment status
- CPS Transaction Number

## Packaging

Total loan amount

## School Records

Grade level

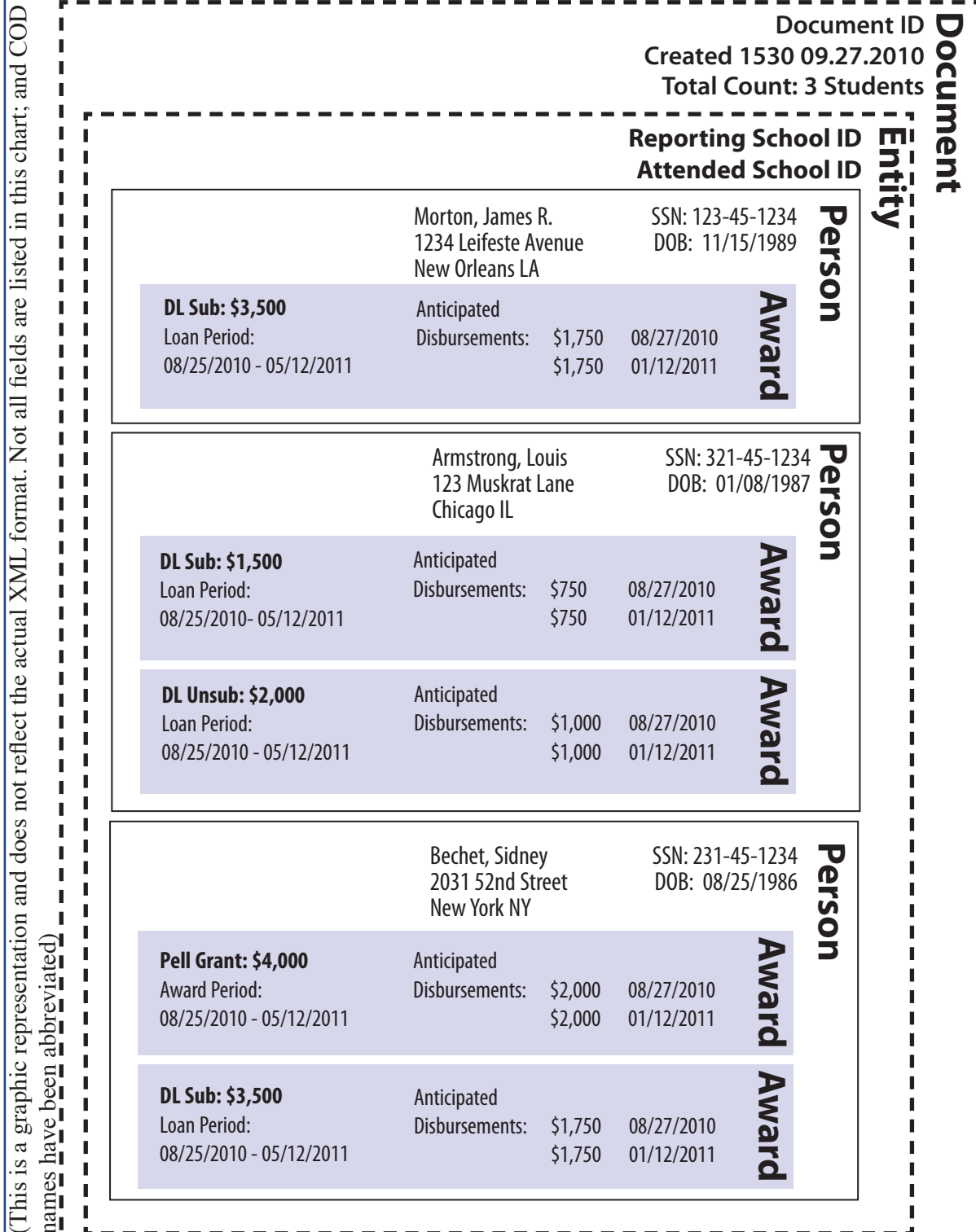
## PLUS Request Form

Parental information

## How Information is Organized in a Common Record Submission

When you send or receive Common Records batched files via SAIG, the batch record will contain several layers of cover information in addition to the award/disbursement records that are grouped in the batch.

This is an example of how selected fields are grouped in COD Common Record batches. In this example, data for a single school is being transmitted—in other cases, a servicer or main campus might be submitting data for multiple schools or branches.





## Grade Level/Student Level Codes

The student's grade level (Student Level Code in COD terminology) is a key data element for loan awards.

- 0 = 1st year, undergraduate/never attended college;
- 1 = 1st year, undergraduate/attended college before;
- 2 = 2nd year undergraduate/sophomore;
- 3 = 3rd year undergraduate/junior;
- 4 = 4th year undergraduate/senior;
- 5 = 5th year/other undergraduate;
- 6 = 1st year graduate/professional;
- 7 = Continuing graduate/professional or beyond

PLUS Loans made to parent borrowers for a dependent undergraduate student must have a value of 0, 1, 2, 3, 4, or 5.

PLUS Loans made to graduate/professional students must have a value of 6 or 7.

The student academic level can change during the award year, so a student's eligibility for Direct Loan funds could change during the year.

Although the student's grade level is reported on the ISIR, your school is responsible for the accurate determination and reporting of student grade level.

## Reporting Academic Year Period and Loan Period

When awarding a loan for just a single term, the full academic year period should be reported, because the academic year is the period to which the annual loan limit applies.

In this example, the loan period is August 24, 2012 – December 15, 2012 (reported as "Award Start" and "Award End" dates).

The full academic year is August 24, 2012 – August 23, 2013 (reported for the "Academic Start" and "Academic End" dates).

### Award Information

|                     |            |
|---------------------|------------|
| Award Start Date    | 08/24/2012 |
| Award End Date      | 12/15/2012 |
| Academic Start Date | 08/24/2012 |
| Academic End Date   | 08/23/2013 |

Refer to Dear Colleague GEN-13-13: *Reporting of Academic Year and Loan Period to COD for Direct Loans* for examples.

## Reporting the date of disbursement

If you are paying the student with Direct Loan funds, the actual disbursement date that you report to COD is the date your school:

- ♦ credits Direct Loan funds to a student's account, or
- ♦ pays the student or parent directly (by check, EFT, etc.).

If you are using school funds to pay the borrower in advance of Direct Loan funds, the disbursement date for FSA purposes is the earliest date that the student or parent could have received FSA funds. Thus, the “actual disbursement date” that you report to COD would be:

- ♦ The 10th day before the first day of classes of a payment period if your school uses its own funds to make the disbursement earlier than 10 days before the payment period.
- ♦ The 30th day after the beginning of a payment period if your school uses its own funds to make an earlier disbursement to a student who is subject to the 30-day delay.

## DIRECT PLUS LOANS

Schools must advise borrowers about the benefits of exhausting Direct Unsubsidized Loan eligibility prior to originating Direct PLUS Loans.

Graduate/professional students must complete a FAFSA to be eligible for PLUS Loans.

Graduate/professional students who receive PLUS Loans are not required to make payments while enrolled at least half-time at an eligible school. Repayment of PLUS Loans is also deferred for an additional six months after they cease to be enrolled at least half-time.

Parent borrowers of PLUS Loans may request to defer repayment while the student is enrolled at least half time and may request to defer repayment for an additional six months after the student ceases to be enrolled at least half time. Each deferment requires a separate request. Parent borrowers who use the **StudentLoans.gov** website to request PLUS Loans can designate their preference for each deferment as part of the Direct PLUS Loan Request.

If the parent borrower is not applying via **StudentLoans.gov** Direct PLUS Loan Request, you will need to obtain some parent information from other sources, such as a borrower response section on your financial aid award letter.

### Example: disbursement date when school funds are used

Steamboat University uses its own funds to credit Direct Loan awards to school charges for its returning students on August 7, even though the fall semester does not begin until August 27. Since the earliest FSA funds could be credited to the students' accounts was August 17, that is the date that Steamboat University reported as the date of the first disbursement, when it submitted award records for the students earlier in the summer.

### PLUS Loans for graduate/professional students

HEA Sec. 428(b)  
34 CFR 685.200(b) & (c)  
DCL GEN-11-07

### PLUS Loan amounts for parents & graduate/professional students

There are no fixed annual or aggregate loan limits for PLUS Loans. A graduate or professional student may be awarded a PLUS Loan for up to the student's cost of attendance minus other estimated financial assistance (see *The Federal Student Aid Handbook, Volume 3* for packaging rules).

Similarly, the total PLUS Loan amount borrowed by one parent or borrowed separately by more than one parent (including a non-custodial parent) may not exceed the student's estimated cost of attendance minus other financial aid awarded for the period of enrollment.

### Requesting a credit check

The MPN includes authorization for the credit check. If an accepted MPN is not on file, permission from the borrower is required prior to originating a PLUS Loan.

A credit check is automatically performed when a school submits a PLUS Loan origination if no current credit eligibility information is available.

If the borrower completes a Direct PLUS Loan Request on the **StudentLoans.gov** website, a credit check will be performed if no current credit eligibility information is available in the COD System.

As an exception process a school can perform a credit check on the COD website before asking a PLUS borrower to complete an MPN, but they must have a signed authorization from the borrower to do so.

Results of the credit check are returned in the response sent to the school if the credit check is completed through the origination process or the **StudentLoans.gov** Direct PLUS Loan Request.

### Establishing ineligibility to borrow

A school may document that a parent cannot take out a PLUS because the parent is already in default on a federal loan or owes a federal grant repayment.

A school may document exceptional circumstances that may preclude an individual from borrowing a PLUS Loan, such as Supplemental Security Income, receipt of Aid to Families with Dependent Children, active bankruptcy proceedings, etc., without requiring a credit check in order to establish that the student is eligible for additional unsubsidized loan amounts available to students whose parents do not qualify for PLUS Loans.

If a school has documented that one student in a family been denied credit in an academic year, the school does not need to perform a credit check for another student from the same family for the same academic year.

## Credit checks

The MPN includes authorization for the credit check. If an accepted MPN is not on file, permission from the borrower is required prior to originating a PLUS Loan.

A credit check is automatically performed when a school submits a PLUS Loan origination if no current credit eligibility information is available.

If the borrower completes a Direct PLUS Loan Request on the **StudentLoans.gov** website, a credit check will be performed if no current credit eligibility information is available in the COD System.

As an exception process, a school can perform a credit check on the COD website before asking a PLUS borrower to complete an MPN, but they must have a signed authorization from the borrower to do so.

Results of the credit check are returned in the response sent to the school if the credit check is completed through the origination process or the **StudentLoans.gov** Direct PLUS Loan Request.

Regardless of the method used to initiate the credit check, the credit check decision will be valid for all PLUS origination records submitted within the time frame that credit checks are valid.

If schools send in a PLUS origination record with an anticipated disbursement (DRI set to “False”) without an accepted credit check decision, the COD System will create an award record for the loan. The COD System will reject a PLUS record that is submitted with actual disbursement information (DRI set to “True”) if the credit decision is declined or the results are pending.

A declined credit decision is returned when a borrower is determined to have an adverse credit history.

A pending credit decision is returned when there is a discrepancy between the borrower information that is submitted and the borrower information that is available at the credit bureau. Student Loan Support will contact the borrower to resolve the discrepancy. Foreign addresses will also cause a pending credit decision to be returned. If the pending decision is the result of a foreign address, the most recent U.S. address will be requested.

## Endorsers

If the parent or graduate/professional student is determined to have an adverse credit history, he or she may still be able to obtain a loan by getting someone without an adverse credit history to complete an endorser addendum. (The student cannot be the endorser for the parent who is obtaining a PLUS Loan for his or her undergraduate student.)

The endorser addendum obligates the endorser to repay the loan if the borrower does not. The endorser may choose to endorse the entire loan or a lesser amount. The endorser is required to complete a credit check to ensure that he or she does not have an adverse credit history.

The endorser can complete the endorser addendum electronically at **StudentLoans.gov**. The borrower will need to provide a Loan Reference number or the award identification number to the endorser who is completing the endorser addendum electronically. A randomly-generated Loan Reference number is sent via email to borrowers with an adverse credit history who complete the Direct PLUS Loan Request via **StudentLoans.gov**. These borrowers can also obtain the Loan Reference number by logging in to **StudentLoans.gov** and selecting “Direct PLUS Loan Requests” from the left hand navigation. The loan reference number is included in the PLUS Acknowledgement sent to the school. Borrowers are instructed to obtain the award identification number, which is generated when the origination is submitted, from the school.

Borrowers whose adverse credit history was determined by a credit check completed due to a PLUS origination must provide the loan identification number to the endorser to allow the endorser to complete the endorser addendum electronically.

When an endorser addendum is required, the PLUS MPN it is associated with can only be used for that one loan. In addition, all PLUS MPNs in the COD System for borrowers in these circumstances will automatically be given a status of “inactive.” The parent or graduate/professional student with a declined credit decision will need to submit a new PLUS MPN for any new loans. Each time the credit check indicates an adverse credit history, the borrower must get an endorser or provide documentation of extenuating circumstances to proceed with that loan.

### ***Additional eligibility for dependent students***

Students may elect to take out the additional amount of unsubsidized loans available to dependent students whose parents are not eligible for a PLUS Loan if their parents have:

- ♦ an adverse credit history ;
- ♦ exceptional circumstances that may preclude an individual from obtaining a PLUS Loan, such as Supplemental Security Income, receipt of Aid for Families with Dependent Children, active bankruptcy proceedings, etc., as documented by the school, without requiring a credit check.

In these cases, schools must flag the incoming record as eligible for the additional Direct Unsubsidized Loans.

#### **PLUS Loan Request Data from COD**

Once a borrower completes an online PLUS Loan request, the COD System will send a system-generated PLUS Loan Request Acknowledgement to the school(s) selected by the borrower.

The PLUS Acknowledgement is sent to the school's Student Aid Internet Gateway (SAIG) mailbox. The message class is CRSPxxOP, where “xx” is the last two digits of the award year in the request.

#### **Appealing adverse credit history**

A PLUS Loan applicant who has received a notification of an adverse credit history and believes inaccurate credit information was provided can contact the credit bureau to get the information corrected. In cases where the adverse credit history is correct but an applicant has extenuating circumstances that can be documented, the applicant may submit an appeal to Student Loan Support.

Examples of extenuating circumstances and examples of the documentation that may be required to support the claim are available on **StudentLoans.gov** under “Learn More” “What You Need” at the top of the home page.

The borrower can begin the process of documenting extenuating circumstances by logging in to **StudentLoans.gov**, and selecting “Document Extenuating Circumstances” on the left hand navigation bar, under “PLUS Request Process.”

Note that an endorser who has an adverse credit history will not qualify to endorse a loan based on extenuating circumstances.

### *Time frame for reporting actual disbursements*

Schools must report actual disbursements (DRI = True) within 15 days of the date of the actual disbursement. If your school is participating as an Advanced Funded school, or has been placed on Cash Monitoring 1 (HCM1), it can submit a DRI = “True” up to seven (7) calendar days prior to the disbursement date.

Schools placed on Reimbursement or Cash Monitoring 2 (HCM2) review status can only submit a Disbursement Release Indicator = “True” on or after the Disbursement Date itself. The disbursement must be reviewed and approved by the School Participation Team.

### **Checking Eligibility at the Time of Disbursement**

Before you awarded funds to a student, you confirmed that he or she was an eligible student and was making satisfactory academic progress (See **Volumes 1** and **2**). Before disbursing federal student aid funds, you must determine and document that a student remains eligible to receive them. You must confirm that:

- the student is enrolled in classes for the period;
- a student enrolled in a non-term program or nonstandard term program with terms that are not substantially equal in length has completed the previous period (credits and weeks or clock-hours and weeks of instruction);
- if the disbursement occurs on or after the first day of classes, that the student has begun attendance;
- for DL loans, the student is enrolled at least half time;
- the borrower has received the required disclosures,
- first-time student borrowers have completed entrance counseling and completed the first 30 days of their academic program (See *Volume 3*);
- for TEACH Grants, the student has, for that award year –
  1. completed the relevant initial or subsequent counseling;
  2. signed an “Agreement to Serve;” and
  3. the appropriate GPA, has otherwise met the performance standard through testing, or is a retiree or a current or former teacher (See *Volume 1*).

## HOW COD PROCESSES LOAN RECORDS

When the COD System receives a common record document via SAIG, it will generate a receipt that is sent to your school's SAIG Mailbox (note: you have the option of not receiving receipts). If you enter student information on the COD website, this change will be noted as received in the COD common record (viewable on the website). This receipt acknowledges that the record has been received, is properly formatted, and will be processed. It does not mean that the record has been accepted.

The COD System performs a series of “edits” to check the accuracy of the data in the school's submission. Records can be accepted, accepted with warning edits, or rejected.

Once the COD System has processed a batch file containing origination records, it sends a response file back to the school indicating, for each student record, whether the record was accepted or rejected.

### *Warning edits*

The COD System may accept some records with a warning edit to let you know that the record is acceptable but you may want to verify the data.

### *Reject edits*

The COD System may reject portions of the Common Record if the data does not meet valid values for the data element or adhere to business rules. The response for the student record will contain the reject codes and a description of the error(s) that need to be corrected.

All the edits and their triggers are available in the COD Technical Reference Volume II Section 4 “Edits.”

### **Turnaround Times**

The COD System retrieves Direct Loan records from SAIG mailboxes three times a day.

In general, the COD System returns the processed data to the school through SAIG by 8 am (ET) the next morning, though current standards allow up to 3 days to process DL Sub/Unsub loans and up to 5 days to process DL PLUS Loans.

### **Storage of rejected records**

The COD system does not store records that have rejected at the Document (Batch) and Entity level.

The COD system does store Document and Entity data from records that have been rejected at the Person, Award, or Disbursement level—these records can be viewed on the COD web site.



## CHANGES TO LOAN DISBURSEMENT DATA

Sometimes information about a Direct Loan borrower changes after the school sends the award or disbursement data to the COD System.

Whenever any data item changes, a school must update information in the loan origination/disbursement records it sent to the COD System. The best practice is to be sure all previous changes have been accepted by the COD System before sending additional updates.

### *Disbursement sequence numbers*

The Disbursement Sequence Number identifies any changes or adjustments to a specific disbursement number. If there are any adjustments to a disbursement, the sequence number is incrementally increased. For example, if you made an adjustment to the student's first disbursement, it would still be Disbursement #1, but the new disbursement record would be listed as Disbursement #1 Sequence #2.

### *Reducing or inactivating (canceling) a loan or disbursement*

A loan must be cancelled or reduced if the school discovers that the student or parent is no longer eligible for the loan or the student has withdrawn from school. Updates should be done on a timely basis.

A loan may be reduced if the school discovers that the borrower is no longer eligible for the loan, the borrower has decided against taking a loan, or the student has withdrawn from school. If a student has not begun to attend, or the borrower chooses to decline the loan or becomes ineligible, the loan is reduced to \$0, all actual and anticipated disbursements are reduced to \$0, and COD then considers the loan inactive.

## REPORTING OF ACADEMIC YEAR AND LOAN PERIOD TO COD FOR DIRECT LOANS

*The Moving Ahead for Progress in the 21st Century Act* (MAP-21) (Public Law 112-141) added a new provision to the statutory requirements that limit a new borrower's eligibility for Direct Subsidized Loans.

Beginning with the 2013–2014 processing year, schools must accurately report academic year dates and loan period start and end dates for all types of Direct Loans (Direct Subsidized, Direct Unsubsidized, and Direct PLUS) to the Common Origination and Disbursement (COD) System.

Schools must also update a previous loan's reported loan period dates or academic year dates if the borrower's actual attendance during the loan period is different from the anticipated attendance that was the basis for the school's initial reporting to COD.

Following are some of the reasons that would require a school to update a loan's loan period or academic year:

- ♦ The borrower requests that a loan or a disbursement of a loan, be cancelled.
- ♦ The borrower does not begin attendance or does not begin attendance on at least a half-time basis in a payment period that was included in the originally reported loan period, and the school did not make any disbursements of the loan for that payment period.
- ♦ The school determines that the borrower is not eligible to receive a Direct Loan for a payment period that was part of the originally reported loan period. Reasons why the a borrower may have lost eligibility for the loan include: the borrower's failure to meet the school's satisfactory academic progress (SAP) standards, the borrower has a grant overpayment, or a change in financial circumstances makes the borrower ineligible for a Direct Subsidized Loan.
- ♦ The borrower withdraws during a payment period that was included in the originally reported loan period and, as a result, the entire amount of the loan that was intended for that payment period is returned under the Return to Title IV aid calculation (R2T4).
- ♦ For clock-hour programs, non-term credit hour programs, and certain types of nonstandard term credit-hour programs, the borrower fails to progress to the next payment period or academic year as scheduled.



### Reporting of Academic Year and Loan Period to COD

GEN-13-13 May 10, 2013

#### Borrower's eligibility

HEA section 455(q)







# Direct Loan Reconciliation

## OVERVIEW

A school that participates in the DL Program is required to reconcile the funds it has received (from the G5 system) to pay its students with the actual disbursement records it has submitted to the Common Origination and Disbursement (COD) system. Schools are required to reconcile monthly.

All Direct Loan schools are also required to complete a year-end closeout which is a final reconciliation of their Direct Loan accounts. This should be done as soon as possible after the end of the school's latest award period (loan period) end date, but no later than the Program Year Closeout Date. The Direct Loan Program Year Closeout date occurs on the last processing day of July in the year following the award year. For example, the Program Year Closeout date for 2011–2012 will be July 31, 2013.

The starting point for reconciliation is the *Ending Cash Balance* on the *School Account Statement* (SAS) that COD sends to the school each month. The SAS is the Department's official record of your school's cash and disbursement transactions. The Ending Cash Balance is simply the difference between the net drawdowns/payments your school has received from the G5 payment system, and the actual disbursement information you've reported to COD (and COD has accepted) for individual students and parents (known as Total Net Booked Disbursements).

Ideally, the net drawdown/payments your school has received in the past month will be fully substantiated by the total disbursements your school has reported (including any subsequent adjustments). Therefore, your school's monthly Ending Cash Balance should be as close to zero as possible keeping timing variances in mind.

### Direct Loan monthly reconciliation required

34 CFR 685.102

$$\begin{array}{r} \text{Net Drawdowns/Payments} \\ \text{(G5)} \\ - \text{Total Net Booked} \\ \hline \text{Disbursements (COD)} \\ \hline = \text{Ending Cash Balance} \end{array}$$

### Booked vs. Unbooked Disbursements

For a disbursement to be considered booked, it must consist of the following three components.

1. It must be a part of an accepted loan origination record (as submitted to COD by the school);
2. It must have an accepted master promissory note associated with it (linked MPN); and
3. It must be reflected as an actual disbursement in COD (the Disbursement Release Indicator = "True" and the date of disbursement must have occurred) .

Once these three things occur, the loan is booked and sent to a Department Servicer, and the student is liable in accordance with the terms and conditions stated in the Master Promissory Note.

*Unbooked disbursements* include any future dated transactions with disbursement dates falling after the end of the report.

### Types of disbursement discrepancies

1. End of month timing issues.
2. Disbursement batches not yet sent to COD (or sent to COD but not acknowledged).
3. Rejected disbursements that have not been resolved.
4. Disbursements reported to COD but unbooked because of future disbursement date.
5. Disbursements made by Business Office but not supported by disbursement records in the financial aid office system and COD (*would show up in internal reconciliation*).

When the Ending Cash Balance for a month is greater or less than zero, you must be able to account for any differences between the net totals for Booked Disbursements and Drawdowns/Payments. The SAS provides you with the information that the Department has recorded for your actual disbursements to students and cash transactions (payments/drawdowns). You can use this information as a starting point in identifying the underlying reasons for the Ending Cash Balance.

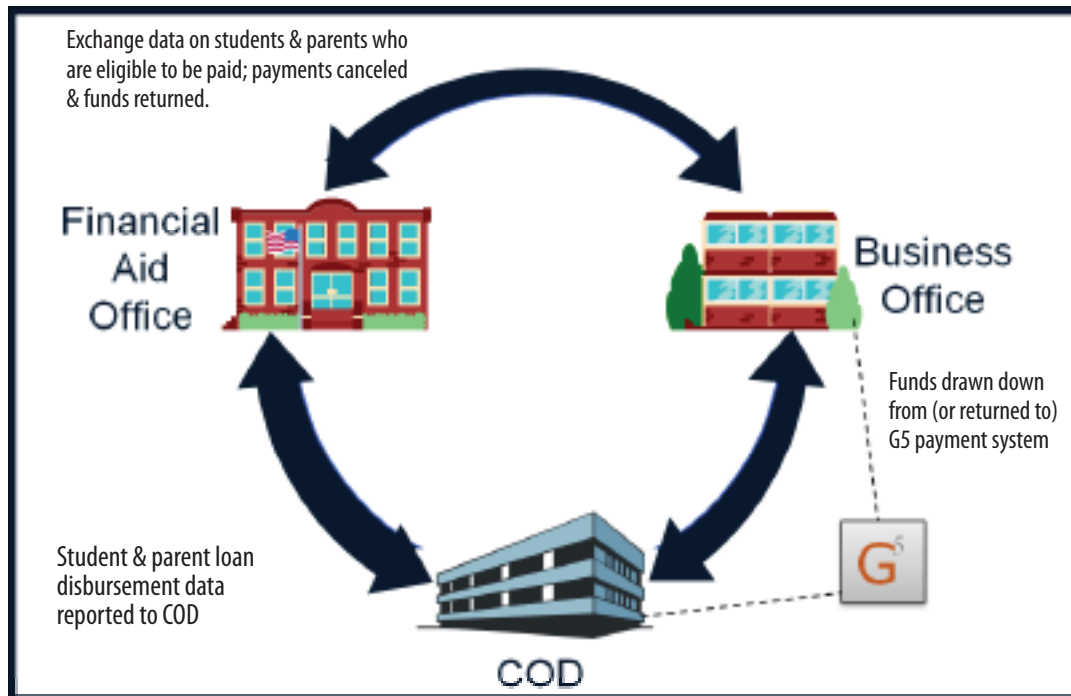
Sometimes the difference between Booked Disbursements and Cash Receipts is just a matter of end-of-month timing—funds were delivered to the school's account at the end of one month and the disbursements were reported to COD at the beginning of the next month (or vice versa). If there are legitimate reasons for a positive or negative Ending Cash Balance from month to month, you may not need to correct or update any of the information your school has provided to the COD or G5 systems. Just document the reasons for the differences and you are done reconciling for that month.

During your review, you may also find omissions or errors in your school's transactions with COD and G5. For instance, you may find that some disbursement data for your students was submitted to, but not accepted by, COD or that G5 transactions were entered for the wrong program year. In these cases, you will need to resubmit corrected disbursement records to COD or correct earlier transactions on the G5 system. Ensuring that your school records match exactly to the data in COD is an example of external reconciliation.

It is also possible that the discrepancy results from inconsistencies between the information in the school's financial aid system and the information kept by its business office—these will need to be resolved by comparing and correcting your school's records. This is an example of internal reconciliation. Schools should complete an internal reconciliation before beginning the required external monthly reconciliation.

### Reconciling ED and School Records

The SAS (sent by COD) includes both disbursement data and cash transactions from COD. This data in ED systems must be reconciled with data in your school's financial aid office and business office.



Discrepancies can occur for a variety of reasons, such as:

- Timing issues—funds are drawn down and disbursed in a different month from the month student/parent records are sent to COD.
- Misreporting of drawdowns or returns of aid—for instance, drawdowns or returns attributed to the wrong award year.
- Actual disbursements or adjustments that have not been processed in COD—including records batched but not sent by the financial aid office, and unresolved rejects.
- Actual disbursements reported to COD by the aid office but not reported to the business office for payment.
- Payments made or not made by the business office that are not reported to the financial aid office.



### Possible Sources of Discrepancies Between Financial Aid & Business Office Records

- Financial aid office calculates Return of Aid (R2T4) but doesn't notify business office.
- Financial aid office schedules disbursement with business office but does not create "Actual disbursement" record to send to COD. (Or, "actual disbursement" record sent by the financial aid office is rejected by COD.)
- business office cancels disbursement but does not inform financial aid office.
- business office makes refund of cash to G5 system but does not inform financial aid office.

## INTERNAL RECONCILIATION

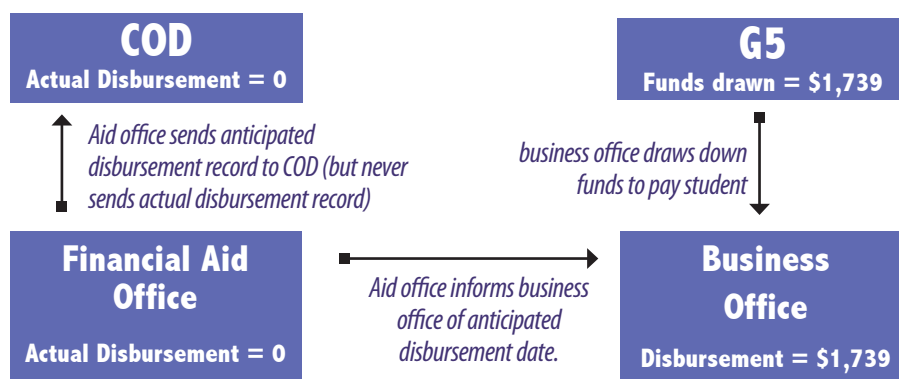
Internal reconciliation is the process where the business and financial aid offices compare their records to ensure that they match, both in disbursement date and disbursement amount. The frequency and methods used for internal reconciliation are based on school decision and need but should occur at least monthly and before the required monthly reconciliation to the Direct Loan School Account Statement (SAS).

The business office should review its Direct Loan account bank statement to ensure that funds drawn and returned are in the appropriate year. In addition the business office will need to regularly monitor the account to comply with cash management regulations, i.e., making sure that funds are drawn for immediate need and any funds that cannot be used within cash management guidelines are returned promptly.

To be in compliance with reporting disbursement and disbursement adjustments within 30 days, the Business and Financial aid offices will need to communicate frequently, making sure that their systems are in sync. It is very important that the date funds are posted to student accounts is the disbursement date the financial aid office reports to COD. This date is reported to the Direct Loan servicers and is the time when interest begins to accrue on the loan funds.

### Discrepancy Between Financial Aid and Business Office

In this example, the financial aid office's data will match with COD data (\$0), and the business office total (\$1,739) will match the amount shown on the SAS cash summary for G5. The financial aid office and the business office will have to compare individual loan disbursements to identify this discrepancy.



The financial aid office submits an Anticipated Disbursement to COD and shares this information with the business office. The business office draws down funds from G5 and credits the student's account on the anticipated disbursement date, but the financial aid office never submits an actual disbursement record to COD.

Discrepancies that occur between the financial aid and business offices are usually caused by a lapse in communication. Note that these discrepancies often do not show up in a comparison of the financial aid office's records to COD, or in the comparison of drawdowns/returns between the business office and G5 payment system. For instance,

- ◆ The financial aid office notifies the business office that the student is eligible for payment on a certain date, but the disbursement record is rejected by COD. If the financial aid office doesn't tell the business office to cancel the disbursement, the business office draws down funds and makes a disbursement to the student that is not supported in COD or in the financial aid office's records.
- ◆ The business office cancels a disbursement and/or makes a refund of cash to the G5 system without informing the aid office. Thus, the original amount will still be included in the net Booked Disbursements on the SAS but will not be reflected in the net Cash Receipts.

Discrepancies can be avoided by setting daily or weekly communication touchpoints between the two offices or by scheduling a data comparison between the two office systems. Resolving differences in internal reconciliation will lead to a smoother external reconciliation with the Department's official data as reflected in the SAS.

## Steps in Monthly Reconciliation

### Internal Reconciliation Process

- ▶ Compare financial aid office records with business office disbursements.  
Look for:
  - Refunds of cash made by business office to G5 but not recorded in the financial aid office system.
  - Disbursements made by business office, but not recorded in the financial aid office system or not sent to COD and accepted.
  - Instances when the financial aid office calculated a Return of Aid and reported a downward adjustment to COD, but the information was not recorded in the business office system and the funds were not returned to G5.
- ▶ Reconcile with SAS data from ED  
Upon receiving the monthly SAS, first compare the cash summary information to your internal records. If they match or you can explain any reasons for your ending cash balance, you are done. If not, then proceed to the next step of comparing SAS cash detail with business office records. Look for:
  - End-of-month submissions that were processed by COD in the next month.
  - Cash transactions attributed to wrong award year.
  - Funds drawn down from one award year but “recycled” to make disbursements for loans in a different award year.
- ▶ Compare SAS Loan Disbursement/Detail with financial aid office records.  
(The “Loan Compare” function in DL Tools can be used to import school data and compare it to the SAS Loan Disbursement Detail.) Look for:
  - Disbursement batches not yet sent to COD (or sent to COD but not acknowledged).
  - Rejected disbursements that have not been resolved.
  - Disbursements reported to COD but unbooked because of future disbursement date.
  - Remember, you must document reasons for any discrepancies in your ending cash balance.

## COMPLETING EXTERNAL RECONCILIATION

After completing internal reconciliation between the Business and Financial aid office records, a school can begin its required monthly reconciliation process, comparing school data to the SAS.

### *Completing monthly reconciliation*

A school has completed its monthly reconciliation when all differences between the SAS and the school's internal records (Direct Loan System and Business Office system) have been resolved or documented. Schools should clearly outline their method of documentation in both Business Office and Financial Aid Office procedures. The Department does not mandate or prescribe any particular method of documentation, which allows your school to determine the type and method that best suits your internal processes. Your school must maintain documented results of its monthly reconciliation to provide to auditors and reviewers at their request but does not need to send any proof of this reconciliation to the Department.

Each month you should:

- ◆ Identify any discrepancies due to timing and track them to make sure that the missing transactions appear in the next month's SAS.
- ◆ Identify any discrepancies due to misreporting or internal miscommunication and take necessary corrective actions to ensure they will not recur in the following month.
- ◆ Document all reconciliation efforts for future reference. In addition to resolving cash balance issues in a timely manner, careful monthly reconciliation will help you to complete year-end close-out much more efficiently.

#### **Key Components of Monthly Reconciliation**

- All discrepancies have been identified, resolved, and documented.
- Timing issues are tracked for reconciliation in next month's School Account Statement.
- Historical records of issues are kept for later review or to update new or returning staff members.

### Completing Year-End Closeout

We encourage you to complete the following simple steps while reviewing your school's internal records and the School Account Statement:

- Ensure that all drawdowns and refunds of cash are accounted for and applied to the correct program year;
- Ensure that all disbursements and adjustments are accurate and have been reported to and accepted by the COD System;
- Ensure that all batches have been sent to and accepted by the COD System;
- Ensure that all unbooked loans are resolved;
- Resolve all outstanding rejected records; and
- Return all refunds of cash to the G5 payment system.

### Direct Loan year-end closeout

Direct Loan schools must complete a final reconciliation and Program Year Closeout. Program Year Closeout should occur within a month or two of your final disbursements but no later than the Program Year Closeout Deadline, which is the last processing day in July of the year following the end of the Award Year.

**Note:** Exceptions to the last processing day of the program year may be made on a case-by-case basis if the school's processing period extends beyond the closeout deadline. Schools falling within this category must request extended processing by contacting the Common Origination and Disbursement (COD) School Relations Center.

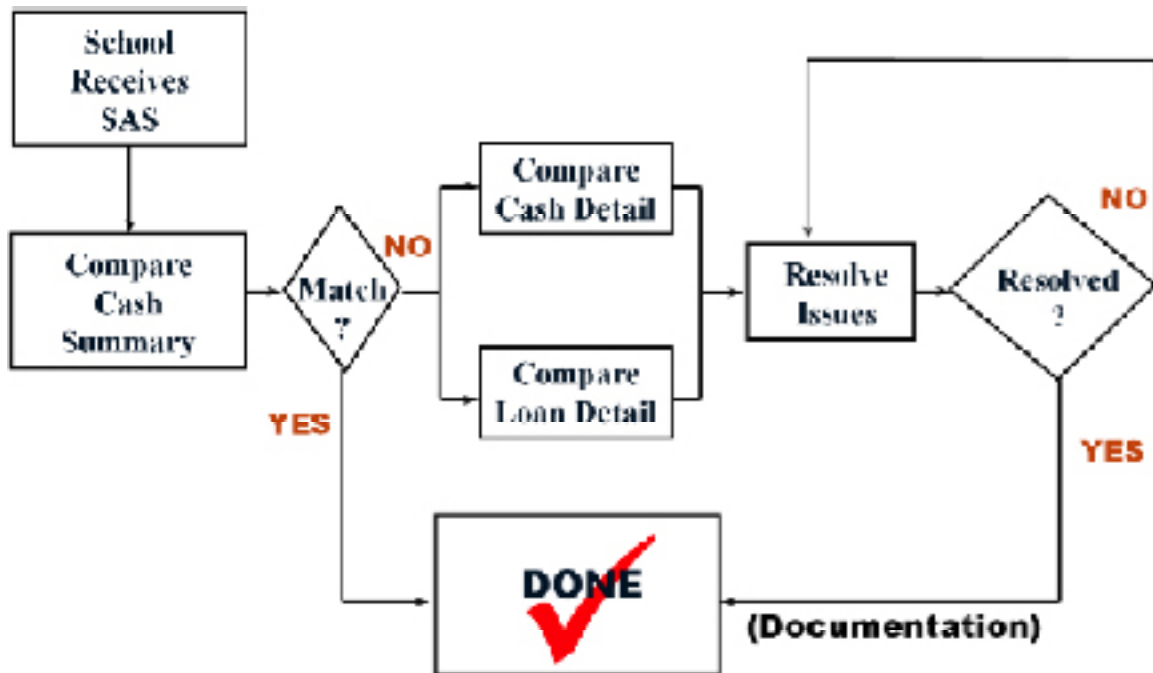
To be considered successfully closed out, a school must:

1. Have an Ending Cash Balance of \$0 and Total Net Unbooked Disbursements of \$0 internally and as reflected on the School Account Statement (SAS), and
2. Complete the Balance Confirmation form on the COD website.

You will be notified of the closeout requirements through Electronic Announcements and COD system-generated closeout correspondence. As part of the closeout process, COD will send ongoing notices via Zero Balance or Remaining Balance emails. In addition, COD will distribute a Notification/Warning Letter via email to schools in May. This letter will go to the Financial Aid Administrator and President at each school that has not confirmed closeout on the COD website (including any schools with a zero balance). It will serve as a reminder to finish processing and confirm closeout before the final deadline. After the closeout deadline, schools with remaining balances will be billed.

A school must be aware of its closeout status even if its Direct Loan processing is handled by the school's third-party servicer. We encourage each school to communicate regularly with your third-party servicer to ensure closeout is completed. It is the school's responsibility to ensure that it finishes processing and confirms closeout on time.

### The External Reconciliation Process





For more information on COD Reports, refer to the latest COD Technical Reference, Volume VI, Section 8, available at [www.fsadownload.ed.gov](http://www.fsadownload.ed.gov).

For more information on COD web screens, refer to the COD website help text or download the free COD Computer Based Training from <http://ifap.ed.gov> under "Tools for Schools."

## USING TOOLS AND REPORTS IN DIRECT LOAN RECONCILIATION

The Department provides several applications to assist your school in completing its Direct Loan reconciliation responsibilities. Among them are COD Reports and Direct Loan Tools.

### COD Reports

COD provides a variety of reports and web screens (available at <http://cod.ed.gov>) to help you in your Direct Loan reconciliation. Detailed information including message classes, record layouts, and delivery methods for all Direct Loan reports can be found in the COD Technical Reference Volume VI Section 8. Highlighted here are a few reports and COD web screens useful to reconciliation:

- ◆ ***School Account Statement (SAS)*** (detailed section to follow)
- ◆ ***30-Day Warning Report*** – this report can help your school identify awards that are missing a piece needed for booking a loan. It is composed of two sections. The first lists origination records missing either a promissory note or an actual disbursement. The second section lists promissory notes missing origination and disbursement records.
- ◆ ***Pending Disbursement Listing*** – this report provides a list of all pending disbursements reported by your school and can help you to identify future funding needs, identify pending disbursements that should be reported as actuals, and identify awards or disbursements that need to be made deactivated (reduced to zero).
- ◆ ***Inactive Loans Report*** – this report provides a list of all loans made inactive (reduced to \$0) during the reported period and can help you confirm that the correct loans have been inactivated
- ◆ ***Direct Loan Actual Disbursement List*** - this weekly report displays actual disbursements from the previous Saturday (seven days before the report generation date) through the following Friday (one day before the report generation date). Actual disbursements appear on the report based on their post date, which indicates when each actual disbursement or adjustment is posted on the COD System. The report includes booked, unbooked, and future dated actual disbursements and adjustments, provided they are created within the reporting period.
- ◆ ***School Summary Information*** – this COD web page provides an overview of your school's current funding level (CFL) as well as cash greater than accepted and posted disbursements over 30 days. It is a great tool to use every time you log into COD to confirm that your school is reporting disbursements in a timely manner to substantiate the funds drawn.

- **Funding Info** – this COD web page lists your school’s current available balance as well as last CFL changes.
- **School Summary Financial Information** – this COD web page provides close to real time balance information for your school, formatted similarly to the year-to-date Cash Summary section of the SAS.
- **Cash Activity web page** – this COD web page provides up-to-date drawdown and refund of cash detail activity for your school as well as days remaining for on-time reporting.
- **Action Queue Search** – this COD web page allows you to search for current pending disbursement activity for your school. You can use the action queue as an ad hoc pending disbursement list by setting your own begin and end date parameters into the future. You can also use the action queue as a reconciliation tool by setting the begin search date to the beginning of the award year with the end date at the current date to view any pending disbursements that either should have been disbursed or reduced to zero.

## Direct Loan Tools

The Direct Loan Tools software application is designed to work with your own mainframe or middle-range application, or hand-in-hand with EDEExpress, to ensure that your Direct Loan records reconcile with the Common Origination and Disbursement (COD) System. With a few simple keystrokes you can compare the monthly School Account Statement (SAS) file you receive from the COD System with your own database to identify discrepancies that need to be addressed.

Direct Loan (DL) Tools for Windows is a supplemental software product for Direct Loan participants. You can download software and related user documentation from the U.S. Department of Education’s Federal Student Aid Download (FSAdownload) Web site located at [www.fsadownload.ed.gov](http://www.fsadownload.ed.gov).

You can use DL Tools during your reconciliation process to:

- ♦ print the SAS in a readable format;
- ♦ track Cash Receipts (drawdowns) and Refunds of Cash; and
- ♦ compare the School Account Statement (SAS) to loans and actual disbursements recorded in either EDEExpress or an external file (your school’s system), and/or compare the SAS to the DL Tools Cash database (records of receipts and Refunds of Cash).

### Using DL Tools for reconciliation

Many schools have found that DL Tools software helps them in the Reconciliation process, even if they are not using EDEExpress.

DL Tools can be used to import and format information from the SAS. DL Tools can produce formatted reports for:

- Cash Summary
- SAS Cash Detail
- SAS Loan and Disbursement Detail

In addition, DL Tools can be used to compare the information from the SAS to the school’s data. We’ll talk more about these features under Cash Detail and Loan Disbursement Detail.

DL Tools runs on Windows-based PCs and can be downloaded free at [www.fsadownload.ed.gov](http://www.fsadownload.ed.gov).

NOTE: Comparison Reports are designed to be run using the SAS Reports with YTD detail, not monthly detail. You can change your report options (YTD detail, for example) by accessing the COD Web site at <http://cod.ed.gov/> (see section in this document titled, “School Account Statement Options”).

For more information on the DL Tools Software, refer to the COD Technical Reference, Volume IV.

There is also training available on Direct Loan Tools on IFAP/Tools for Schools/ EDEExpress Online Training.

### Using DL Tools to evaluate your average processing time

If your school uses EDEExpress, you can use the Disbursement Measurement Tool (in DL Tools) to calculate

- average time from actual disbursement date to sending the actual disbursements in a batch to COD.
- average time from actual disbursement date to booking the loan.

These average times can be compared to the recommended tolerances you have established as your quality control standard.

Reports available to schools using Direct Loan Tools include:

- ◆ SAS Cash Summary (available upon import of the SAS File)
- ◆ SAS Cash Detail
- ◆ SAS Loan and Disbursement Detail
- ◆ Internal Ending Cash Balance Report
- ◆ Cash Detail Comparison
- ◆ Loan Detail Comparison
- ◆ Disbursement Detail Comparison
- ◆ Disbursement Measurement Tool

## THE SCHOOL ACCOUNT STATEMENT

Each month, the COD system sends a School Account Statement (SAS) to your SAIG Mailbox. This report is generated by COD during the first weekend of the month with data through the end of the previous month (for example, the first weekend in September, COD generates a report for August and sends it to your school). The SAS reflects all cash transactions performed in G5 as reported to COD and all loan and disbursement detail reported by your school and accepted in COD.

Your school is required to reconcile the information on the SAS to its internal records on a monthly basis.

Note that your school will receive a separate SAS for each award year that it participates in Direct Loans until that award year is closed out as directed by ED. Since a school often has multiple award years open at the same time, it may receive more than one SAS for a given month.

To successfully “close out” your Direct Loan account at the end of an award year, you must have an Ending Cash Balance of \$0 and Total Net Unbooked Disbursements of \$0, as reflected on your school’s SAS.

The School Account Statement (SAS) is broken down into the following four sections:

- ◆ Cash Summary
- ◆ Disbursement Summary (by loan type)
- ◆ Cash Detail Report
- ◆ Loan or Disbursement Detail Report.

### DL Tools for Cash Management:

You can use the “Cash Management” feature in DL Tools to keep a record of Cash Receipts (drawdowns) and Refunds of Cash for Direct Loans.

However, if you use this feature, you must take care to ensure that EVERY transaction is recorded in the Cash Management Tool. Thus, if your business office tracks transactions in other software, you may want to rely on that software to record cash transactions, rather than making duplicate entries.

If you are using the Cash Management feature of DL Tools, you can also run the following reports for all program years:

- Internal Ending Cash Balance Report
- Cash Detail Comparison.

## Cash Summary

This section of the SAS provides the Department's official Ending Cash Balance for the school for the reported period. The *Ending Cash Balance* is the difference between *Net Drawdown of Cash* and *Net Booked Disbursements*. The Cash Summary contains both a monthly and a year-to-date summary of cash and loan data processed at COD for that program year. This section can be compared to summary information on the school's internal systems. The comparison may then identify areas where further research is needed.

Ultimately, if a school's Net Drawdowns/Payments are equal to its Total Net Booked Disbursements, its Ending Cash Balance will equal \$0.

## Disbursement Summary by Loan Type

The Disbursement Summary by Loan Type section of the SAS provides monthly and YTD summary information by loan type for the reported period. It can be used to monitor loan volume at the summary level.

## Cash Detail

The Cash Detail section of the SAS provides detail on cash transactions processed in COD during the reported period. This includes drawdowns, drawdown adjustments, or refunds of cash. If the monthly option is chosen, this section will only include cash transactions processed in COD during that month. This section will not include any cash transactions requested or sent during the month, but not processed on COD until after the last day of that month. If the year-to-date option is chosen, the section will include cash transactions processed at COD from the start of the program year through the end date of the report.

(See *Common Causes for an Existing Ending Cash Balance* later in this chapter for more details).

## Loan Detail/Loan Disbursement Activity Level

The *Loan Detail/Loan Disbursement Activity Level* section of the SAS contains loan detail transactions at either the loan level or the individual disbursement transaction level, depending on school options. If loan detail is requested at the loan level, the SAS will contain one record per loan, with year-to-date disbursement information. If loan detail is requested at the disbursement activity level, the SAS will contain all actual disbursement and disbursement adjustment activity that occurred during the preceding month or year-to-date (depending on the options selected by the school) as reported by the school and accepted by COD.

### Using the SAS

Three sections of the School Account Statement (SAS) are particularly useful for purposes of reconciliation:

- Cash Summary →  
compare to summary school data
- Cash Detail →  
compare to business office records
- Loan Disbursement Detail →  
compare to financial aid system

### Setting Options for the format and content of the SAS

Schools can set their SAS format and content options on the COD website by selecting - *School/Report Selection/Modify SAS Options*

SAS format choices are Fixed Length (the default), Comma-Delimited WITHOUT Headers, Comma-Delimited With Headers, or Pipe-Delimited. If you plan to use DL Tools to format your report and /or run a comparison to school records, you must select YTD Fixed Length format. If you plan to open your SAS in Excel, you should select Comma-delimited WITHOUT Headers for data only report, or Comma-delimited WITH headers for a more formatted report.

SAS content options include:

- Names of borrowers
- Monthly or YTD or both for cash and loan detail (if you choose both, you will receive two separate reports but both have the same message class)
- Disbursement summary by loan type
- Disbursement detail or loan level detail (YTD) or both.

You will always receive both YTD and monthly data on your Cash Summary regardless of which options you choose. For more information on available SAS Options, including message classes, see the COD Technical Reference Volume VI Chapter 8 at [www.fsadownload.ed.gov](http://www.fsadownload.ed.gov).

This portion of the report is helpful because it allows schools to match individual (student by student) COD accepted disbursements and adjustments against the individual disbursements and adjustments reflected in the school's financial aid system. By identifying discrepancies between disbursements in COD and your financial aid system, you will be able to resolve the differences.

In the following sections, we'll explain how to compare the summary and detail reports to your school data to identify any underlying discrepancies that may be affecting the Ending Cash Balance.

## WORKING WITH THE SAS

Once your school receives the School Account Statement, the first step in monthly reconciliation is to compare the Cash Summary data to the corresponding totals in your school's financial aid and business office systems. Ideally, your Ending Cash Balance will be \$0.00, suggesting that there are no discrepancies to be explained. However, there could be rare instances where positive and negative discrepancies are canceling each other out, so you need to look at the rest of the Cash Summary to make sure that it matches your school's data.

In addition to the Ending Cash Balance, the Cash Summary shows:

- ♦ *Net Drawdowns/Payments*, which reflects *Cash Receipts* (funds drawn through G5) minus *Refunds of Cash* (funds returned through G5 or to COD by check), and
- ♦ *Total Net Booked Disbursements*, which reflects *Booked Disbursements* minus *Booked Adjustments*.

Many differences between your drawdowns from G5 and the disbursements reported to COD can be explained by timing issues. For instance, if your school draws down \$25,000 to pay students at the end of September but does not send in actual disbursement records for those students until the beginning of October (within the 30-day reporting requirement), the SAS for the month of September will include \$25,000 in cash receipts from the G5 system that are not matched by booked disbursements in COD. (Also, keep in mind that loan disbursement records sent to COD near the end of the month may not be processed and acknowledged until the beginning of the next month.)

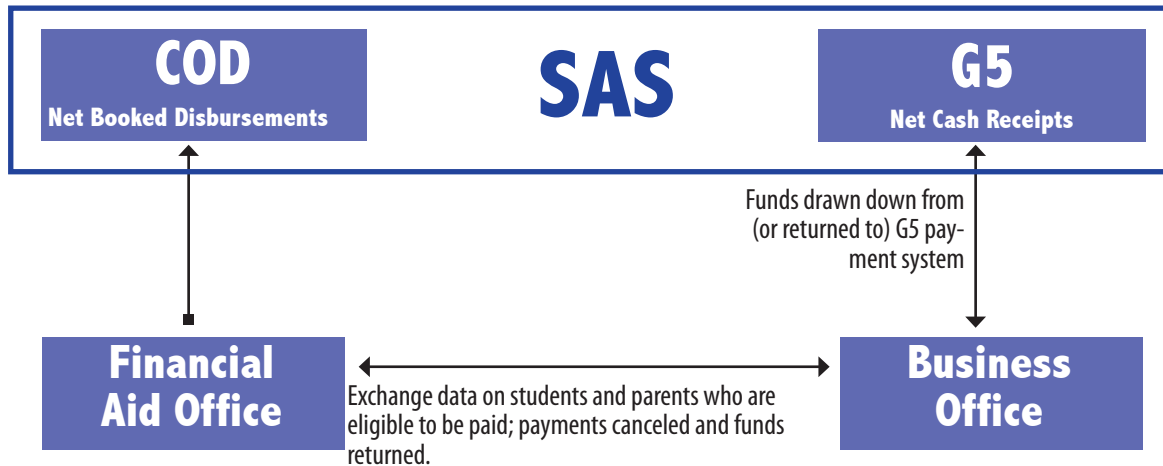
If you can identify such discrepancies and account for any remaining cash balance (positive or negative) at the Cash Summary level, then you've successfully completed reconciliation for the month. Remember that a school must document its reconciliation process and the results of each monthly reconciliation.

However, in many cases, you may need to compare the SAS and school data at a more detailed level, using two other sections of the SAS:

- ♦ the SAS Cash Detail for cash receipts and refunds of cash; and
- ♦ the SAS Loan or Disbursement Detail for actual disbursement and adjustment data accepted in COD.

### Reconciling Department and School Records

The SAS (sent by COD) includes both disbursement data and cash transactions from COD. This data in ED systems must be reconciled with data in your school's financial aid office and business office.



Discrepancies can occur for a variety of reasons, such as:

- Timing issues—funds are drawn down and disbursed in a different month from the month student/parent records are sent to COD.
- Misreporting of drawdowns or returns of aid—for instance, drawdowns or returns attributed to the wrong award year.
- Actual disbursements or adjustments that have not been processed in COD—including records batched but not sent by the financial aid office, and unresolved rejects.
- Actual disbursements reported to COD by the aid office but not to the business office for payment.
- Payments made or not made by the business office that are not reported to the financial aid office.





## Example of SAS Cash Summary

The information in the Cash Summary is fairly general—you will usually need to examine the detail information in the SAS and in your school's records to be able to identify the source of any discrepancies shown in the Summary. The example shown below is a monthly Cash Summary.

End Date: 09/30/2011

School Code: G09009

|     |   |          |          |
|-----|---|----------|----------|
| 1   | Beginning Balance                         |          | \$0      |
|     | Cash Receipts                             | \$33,074 |          |
|     | Refunds of Cash                           | -\$1,350 |          |
| 2   | Net Drawdowns/Payments                    |          | \$31,724 |
|     | Booked Disbursements                      | \$25,721 |          |
|     | Booked Adjustments                        | -\$1,250 |          |
| 3   | Total Net Booked Disbursements            |          | \$24,471 |
| ECB | Ending Cash Balance                       |          | \$7,253  |
| 4   | Unbooked Disbursements Actual:            | \$1,264  |          |
|     | Unbooked Adjustments:                     | -\$0     |          |
|     | Total Net Unbooked Disbursements          |          | \$1,264  |
| 5   | Cash > Accepted and Posted Disbursements: |          | \$5,989  |

### Analysis of Sample SAS Cash Summary:

- 1 The Beginning Cash Balance is zero at the start of the award year. Otherwise it is equal to the previous month's ending cash balance.
- 2 The SAS shows that the school drew down \$33,074 from the G5 payment system and returned \$1,350 in cash during September. If these amounts differ from the school's summary data, the **SAS Cash Detail** should be compared to the business office's records of cash transactions.
- 3 The SAS shows \$25,721 in Booked Disbursements reported to COD and a net of \$1,250 in adjustments that reduces the total disbursements.
- ECB Because the school drew down more money from G5 in September than the amount of loan disbursements it reported to COD, the Ending Cash Balance has grown to \$7,253.
- 4 In this sample, one or more Unbooked Disbursements—possibly the result of future-dated disbursement records—are contributing to the positive Ending Cash Balance. If the \$1,264 in disbursements is booked in October, they will reduce the Ending Cash Balance. Comparing the Loan Disbursement Detail on the SAS with the financial aid office's records may show unbooked disbursements that were not reported to COD (and thus don't appear on the SAS).
- 5 The remainder (Cash > Accepted and Posted Disbursements) is the difference between Net Drawdowns/Payments and all actual disbursements accepted at COD, both booked and unbooked. It may be explained by timing issues between school actions and the date transactions are recorded in COD, differences between financial aid office and business office records, or rejected disbursement records at COD that have yet to be resolved.



### Example of SAS Cash Detail

The Cash Detail shows each exchange of funds with the G5 (formerly known as GAPS) system as reported to COD. (Either cash received by the school or a Refund of Cash to G5.) The amounts listed in the Cash Detail often represent amounts for multiple loans that have been reported separately to the COD system.

| Trans Type                              | Trans Date | Trans Amount       | COD Process Date | G5 Control/Check Number    |
|---|------------|--------------------|------------------|----------------------------|
| Receipt                                 | 09/06/2010 | \$12,800           | 09/06/2011       | 2005091212345 <sup>1</sup> |
| Receipt                                 | 09/12/2010 | \$12,024           | 09/12/2011       | 2005091267890              |
| Refund                                  | 09/15/2010 | \$725 <sup>2</sup> | 09/22/2011       | 000000101100...            |
| Receipt                                 | 09/26/2010 | \$8,250            | 09/25/2011       | 2005091234567              |
| <sup>3</sup> Total Cash Receipt Records |            |                    | 3                |                            |
| Total Refunds of Cash Records           |            |                    | 1                |                            |
| Total SAS Cash Detail Records           |            |                    | 4                |                            |
| <sup>4</sup> Total Cash Receipt Amount  |            |                    | \$33,074         |                            |
| Total Refunds of Cash Amount            |            |                    | \$725            |                            |

### Analysis of Sample SAS Cash Detail:

- <sup>1</sup> The transactions listed in the Cash Detail include **G5 control numbers** for drawdowns and refunds. It will also show the check number if the school made a refund (return of cash) directly to COD (not recommended).
- <sup>2</sup> From the Cash Detail, we see that the \$725 total **Refund of Cash** was made in a single transaction. Given the amount, it is possible that it represents the cancellation of a single loan disbursement, but one would have to examine the business office records to confirm this. (If the loan had already been reported to COD when it was cancelled, the Loan Disbursement Detail on the SAS should also show a subsequent adjustment to reduce the loan amount.)
- <sup>3</sup> These three lines show the total number of drawdowns (cash receipts) by the school for the month vs. the total number of refunds sent back by the school during the same timeframe.
- <sup>4</sup> These two lines show the total amount drawn down for the month (cash receipts) and the total amount returned.

A comparison with the school's business office records may identify missing transactions. For instance, if the school intended to make a Refund of Cash for this award year but attributed it to the wrong award year, the amount of that transaction would not be reflected on the SAS for this award year, and the Total Refunds amount shown on the statement would be too low. (Conversely, the Total Refunds amount on the SAS for the other award year would be too high.)

## LOAN DISBURSEMENT DETAIL

In contrast to the bank transactions shown on the Cash Detail, the *Loan Disbursement Detail* is meant to be compared with the individual loan records in your financial aid office system. This detailed report includes all actual disbursement information and adjustments that have been accepted by COD during that month based on the date the individual transaction books at COD (Disbursement Booked Date).

The default option for the School Account Statement is the *Monthly Disbursement Detail*. If you plan to use DL Tools to compare the SAS data with your school records, you should request this information in the form of the *Year-to-Date Disbursement Detail* (note that this will significantly increase the size of the report as the award year progresses). SAS options can be changed on the COD website.

### *Timing issues and the School Account Statement*

As noted earlier, timing issues could be a recurring source of discrepancies. Disbursement and adjustment transactions appear on the School Account Statement for the month in which the COD system receives or acknowledges the transaction. An actual disbursement that is transmitted to COD in late September may not be acknowledged by the COD System until October and therefore will appear on the October SAS, which will arrive at the school in early November.

The same kind of discrepancy can occur when the business office draws down and disburses loan funds to the student in late September, but the financial aid office doesn't send the actual disbursement records for those loans until the beginning of October. If such discrepancies are common at your school, you may want to look at ways to make sure that actual disbursement records are sent to COD sooner.

In either case, the disbursement amount may show up on the September SAS as part of a drawdown from G5 but not on the loan detail for September. You will need to check to make sure that the disbursement was accepted by COD, and document the discrepancy. You should also check to make sure that the disbursement is included when you receive the SAS Loan Detail for October.

#### **DL Tools and the Loan Compare Report**

You can use DL Tools to compare the SAS loan and disbursement detail recorded in your financial aid office's system. For more information on DL tools and the comparison reports available see the *COD Technical Reference Volume IV* or view the DL tools web-based training available on IFAP/Tools for Schools/EDEExpress Online Training.

### Example of SAS Loan Detail (Disbursement Detail)

Report Date: 09/01/2012 U.S. DEPARTMENT OF EDUCATION  
Report Time: 12:01:01 DIRECT LOAN TOOLS - 2012-2013

PAGE: 1

#### SAS Loan Detail

Sort by: Loan ID

THIS DOCUMENT CONTAINS SENSITIVE INFORMATION PROTECTED BY THE PRIVACY ACT

\*\*\*\*\*

Date Range: 08/01/2012 to 08/31/2012

School Code: G99999

Booked Status: Booked and Unbooked

End Date: 08/31/2012

Loan Type: All

Student's Name

PLUS Borrower's Name

Record  
Type

Gross  
Amount

Fee  
Amount

Int. Rebate  
Amount

Net  
Amount

Servicer Name

|                              | Disb # | Seq # | Type     | Disb Date  | Gross Amt | Net Amt |
|------------------------------|--------|-------|----------|------------|-----------|---------|
| BLUE, BILL G                 |        |       |          |            |           |         |
| 999990002S13G99999001        |        | 1     | Booked   |            | \$0       | \$743   |
| DEPT OF ED PHEAA             |        |       |          |            |           |         |
| 2                            | 1      | 1     | D        | 08/15/2012 | \$750     | \$743   |
| ILLINOIS, ILENE              |        |       |          |            |           |         |
| 999990065U13G99999001        |        | 3     | Booked   |            | \$0       | \$495   |
| DIRECT LOAN SERVICING CENTER |        |       |          |            |           |         |
| 4                            | 1      | 1     | D        | 08/15/2012 | \$600     | \$595   |
|                              | 1      | 2     | A        | 08/15/2012 | \$500     | \$495   |
| OHIO, OLIVIA M               |        |       |          |            |           |         |
| 999990070S13G99999001        |        |       | Unbooked |            | \$0       | \$1,238 |
| DIRECT LOAN SERVICING CENTER |        |       |          |            |           |         |
|                              | 1      | 1     | D        | 08/15/2012 | \$1,250   | \$1,238 |

*See the page that follows for an explanation of this SAS Loan Detail*

## Analysis of Sample Loan Disbursement Detail

The SAS Loan Disbursement Detail shows the **actual** disbursements that have been accepted by the COD system. This example shows first disbursements of Direct Subsidized loans to Bill Blue and Olivia Ohio, and the first disbursement (with an adjustment) of a Direct Unsubsidized loan to Ilene Illinois.

- ❶ The first line of the loan listing shows if the loan is booked or unbooked, the gross amount, fee, interest rebate, (interest rebates do not appear for loans first disbursed after July 1, 2012), and the net amount of the loan.
- ❷ The second line shows the date of the disbursement or adjustment and the gross and net amounts of the disbursement.
- ❸ The letter S, U, or P in the ninth position of the Loan ID indicates whether it is a Subsidized, Unsubsidized, or PLUS Loan.
- ❹ For Ilene Illinois' Direct Unsubsidized Loan, we see that the disbursed amount has been adjusted (disbursement 1, sequence 2). Note that the adjusted amount is the amount of the disbursement *after* the change has been recorded. The adjustment itself is a reduction of \$100.00.

### Next Steps .....

What's NOT on the SAS Loan Disbursement Detail is as important as the loans that are listed. Note that rejected disbursements will not appear on the SAS.

#### ✓ Compare the loan disbursements on this Detail to the data in your financial aid office system.

If you are using DL Tools software, the Loan Detail Compare report will identify loans that appear in your school's database but not on the SAS, and vice versa. In addition, most software packages can generate reports showing the current status of all award records, MPNs, and actual disbursements in your database.

- Look for actual disbursements that are in your school's database but have not been transmitted to COD (or were rejected by COD).
- Look for any actual disbursements that were entered directly on the COD website, but not in the financial aid office software database.

#### ✓ Check for unbooked loans

If you not are using DL Tools software, you can identify many unbooked loans by reviewing the 30-Day Warning Report sent by COD.

Look for any loans that are missing a necessary component (loan origination record, MPN, or first disbursement) to book the loan.

#### ✓ Check the disbursement information in your school's business office records.

Via internal reconciliation, compare the disbursement records in the business office (credits and payments to students) to the *actual disbursements* listed in the financial aid office system.

- Look for any disbursements made by the business office that are not substantiated by an actual disbursement record submitted to COD (and accepted) in the same month.
- Look for any actual disbursements reported to COD but not made by the business office within the same month.

## BEST PRACTICES FOR RECONCILIATION

### *Best practices—establishing preventive procedures*

Month end reconciliation can be a simple process for schools that maintain good daily processing practices and cash management procedures. During the month, your school's financial aid and business offices should ensure:

- ◆ All funds received have been substantiated with actual accepted disbursements in COD by regularly checking your financial aid database for any unsent or rejected batches and disbursements;
- ◆ Any downward adjustments have been accompanied by either a refund of cash or a disbursement of funds to another eligible student in the same award year (within cash management regulations);
- ◆ Any excess funds have been returned to the Department as a refund of cash;
- ◆ All funds requested are for disbursements to be made within the period of immediate need (three business days) and that funds are disbursed within that period or returned to the Department; and
- ◆ All awards and disbursements are reported within the 30-day reporting period allowed by regulation.

### *Best practices—preparing for monthly reconciliation*

You can minimize discrepancies by making sure that all COD transactions have been completed and your internal records are up-to-date prior to the end of each month.

- ◆ Export all batches that are ready to be processed by COD at least two business days before the end of the month.
- ◆ Import the acknowledgements. (Alternatively, you could run a query or report to identify unsent batches and rejects and use that to see what needs to be cleaned up.)
- ◆ Run reports within your financial aid software to identify and resolve records (MPN, origination, and disbursement) that are not in an accepted (A) status.
- ◆ Review the batch activity list for any unconfirmed batches, and import any missing acknowledgments.

#### **Back up your data!**

Before you begin reconciliation, be sure to back up all Direct Loan and other data files that may be affected by reconciliation.



Reconcile internally with the business office or bursar's office so that you have the same cash balance to compare to the balance shown on the SAS. For its part, the business office can:

- ◆ Review drawdown and refund activity in your school's federal bank account and reconcile any discrepancies. Make sure that draws and refunds are posted to the correct award year.
- ◆ Communicate with the financial aid office when it has drawn cash or returned funds within the last three business days of the month. (These transactions may not be recorded on the most recent SAS, creating a timing issue and discrepancy in the Net Drawdown/Payments.)
- ◆ Return any refunds or excess cash using the electronic process through G5.



### Sample Internal Report Comparing Financial Aid and Business Office Data for Loan Disbursements

| Loan ID               | Trans Code | Description      | Disb Num | Trans Date | Bus Office Net Disb Amt | FA Office Net Disb Amt | Difference | Recon Flag | Explanation                                |
|-----------------------|------------|------------------|----------|------------|-------------------------|------------------------|------------|------------|--|
| 444556666P13G09009001 | DB         | PLUS Loan Disb   | 1        | 9/05/2010  | \$2,407.00              | \$2,407.00             | 0.00       | R          |  |
| 222334444U13G09009001 | DB         | Staff UnSub Disb | 1        | 9/12/2010  | \$1,739.00              |                        | \$1,739.00 | R          | Still "anticipated" in FA Ofc Sys <b>1</b> |
| 222335555U13G09009001 | DB         | Staff UnSub Disb | 1        | 9/19/2010  | \$1,413.00              |                        | \$1,413.00 | R          | Still "anticipated" in FA Ofc Sys          |
| 222334444S13G09009001 | DB         | Staff Sub Disb   | 1        | 9/21/2010  | \$950.00                |                        | \$950.00   | R          | Change made on COD; Not on FA Ofc Sys      |

- 1** These two disbursements were made by the business office but were not substantiated in COD because the financial aid office has not submitted an Actual Disbursement record to COD. As shown on the previous page, this discrepancy will not show up in a comparison of school data with the SAS's Loan Disbursement Detail or Cash Detail. The discrepancy can only be identified by a comparison of loan-level data between the financial aid office's system and the business office. On the next page, we show how these two transactions would appear as \$3,152 in excess cash on the Reconciliation worksheet.



## Sample Report Comparing SAS and School Totals and Documenting Differences

This spreadsheet is one way to compare the totals from your school's system to the information on the School Account Statement, and document the reasons for any differences. A version of this spreadsheet is available on the Web (go to Direct Loans ([direct.ed.gov](http://direct.ed.gov)) > Professionals > Publications > DL School Guide.

### Reconciliation Worksheet School Systems to COD School Account Statement As of Date: 9/30/10

Note: Enter numeric data into shaded cells

| COLUMN 1<br>SCHOOL'S FINAID &<br>BUSINESS SYSTEMS              | COLUMN 2<br>SCHOOL ACCOUNT<br>STATEMENT (SAS) | COLUMN 3<br>DIFFERENCE: | REASONS - DIFFERENCE IN ECB   |
|--|---|-------------------------|---|
| Beginning Balance  | \$0   | \$0                     |   |
| Cash Receipts  | \$33,074                                      |                         |   |
| Refunds of Cash  | \$2,075                                       | \$0                     |   |
| Net Drawdowns/Payments   | \$30,999                                      | \$725                   | \$725 refund entered on G5 on Sept 20; not included on Sept. SAS.   |
| Booked Disbursements   |   |                         |   |
| Booked Adjustments   | \$25,721                                      |                         |   |
| Total Net Booked Disbs   | \$0   | \$0                     | \$1,250 (net) in adjustments done via COD Web site; not entered in Fin Aid Cde system at school.  |
| Ending Cash Balance  | \$5,278                                       | \$1,250                 |   |
| Unbooked Disbursements   | \$2,126                                       |                         |   |
| Unbooked Adjustments   | \$0   |                         |   |
| Total Net Unbooked Disbs                                       | \$2,126                                       | \$862                   | Difference in ECB is explained by discrepancies noted above.  |
| Excess Cash<br>(Cash > Net Accepted &<br>Pushed Disbursements) | \$3,152                                       | \$-2,837                | REASONS - DIFF IN UNBOOKED<br>\$862 disbursement not yet sent to COD (unbooked).<br>REASONS - EXCESS CASH<br>Col 1: Total compares 2 disbursements by the BusOff; not recorded as Adj. Disb. in FinAid system or reported to COD.<br>Col 3: Explained by \$1,975 and \$862 discrepancies noted above. |

SAS.

- According to the school's records, its Net Drawdowns/ Payments are \$5,278 more than it has substantiated in Net Booked Disbursements.
- The school's Ending Cash Balance includes \$2,126 in Total Net Unbooked Disbursements.
- The remainder (school's ECB – net unbooked disbursements) is \$3,152. **Internal reconciliation** may help explain the \$3,152 of excess cash attributable to the month of September. Once you have determined the cause, you must either report actual disbursements, or return undisbursed cash.

- A comparison of the Cash Detail on the SAS with the business office's records identifies a refund to G5 that was initiated at the end of September but not recorded by G5 until October.

- A comparison of the Loan Disbursement Detail on the SAS with the school's financial aid system shows an online award adjustments not recorded in the financial aid system and an unbooked disbursement that has not yet been reported to COD.

**Conclusions** In this example, the school has been able to document all of the discrepancies that are shown on the worksheet. The ECB on the SAS is explained by:

|         |  |
|---------|--|
| 5,989   | excess cash (7)  |
| - 725   | refunds processed after 9/30                                   |
| - 1250  | adjustments made on Web only                                   |
| - 862   | unreported disbursements                                       |
| \$3,152 | Cash to be returned or disbursements to be posted and reported |





# Borrower Care

## OVERVIEW OF REQUIRED BORROWER CONTACTS

One of the hallmarks of the Direct Loan Program is its simplicity. Direct Loan borrowers make all of their loan payments to one loan servicer, and have the choice of consolidating their individual loans into a single loan after they leave school.

Though the repayment process has been made as simple as possible, there are several key decisions that a student must make when taking out a loan and when leaving school. Schools play an important role in delivering loan information that the student needs to make these decisions.

Throughout the student's attendance, he or she must receive:

- ◆ a notification of the aid award (sent by the school)
- ◆ entrance counseling (if a first-time borrower)
- ◆ disclosure statement (sent by COD or the school)
- ◆ notification of disbursement (sent by the school)
- ◆ notification of subsequent loans (sent by the school), with either active/passive confirmation
- ◆ exit counseling

Borrowers should also be encouraged to check with their Direct Loan servicer to find out if they can get a discount by choosing an electronic debit option. This information can be supplemented by materials or presentations that are customized to the needs of your student population, and reinforced by other school contacts with the borrower.

Providing accurate and timely information to borrowers is essential, but there are other elements to borrower care. Your school can help its students successfully repay their loans by sharing borrower information with the Department and the Direct Loan servicers.

- ◆ A school must regularly report on the enrollment status of any of its students who have borrowed from the Direct Loan or FFEL programs, which helps track the student's grace period and ensures that its students receive in-school deferments (if attending at least half time).
- ◆ You may request regular reports showing delinquent borrowers who have received loans at your school.
- ◆ You can help delinquent borrowers avoid default by working with the student and the student's Direct Loan servicer.

## AWARD NOTIFICATION

Schools are required to notify students of any FSA funds that they have been awarded. This is a requirement that applies to all of the FSA programs.

Many schools include the FSA award information as a part of a more general “award letter” that lists all of the student's aid awards. At four-year schools using traditional calendars, award notifications are usually sent in the spring before the school year begins. At schools with shorter programs and/or with a large commuter enrollment, aid offers and acceptances may happen at the beginning of a term or program. In either case, the student has the opportunity to accept or decline the loan, or request modification of awards that are offered.

Loan award amounts are only one part of the consumer information that schools are required to provide to borrowers. In designing your award notification, you should consider how you want to integrate the other required elements of student consumer information. These requirements are discussed in *The Federal Student Aid Handbook, Volume 2*.

### Sample Award Letter Format

Dear Elayne Benis,

Based on the information that you provided, Kronos University is pleased to notify you of the following financial aid award(s) to help you fund your education.

| BUDGET             | EFC      | UNMET<br>NEED | AWARDED<br>FUNDS | REMAINING<br>NEED |                |
|--------------------|----------|---------------|------------------|-------------------|----------------|
| \$11,850           | -        | 0             | = \$11,850       | -                 | \$11,850 = \$0 |
| Type of Aid        | Decline? | FALL          | SPRING           | TOTALS            |                |
| Federal Pell Grant | [ ]      | \$2,025       | \$2,025          | \$4,050           |                |
| DL Sub Loan        | [ ]      | \$1,750       | \$1,750          | \$3,500           |                |
| DL Unsub Loan      | [ ]      | \$1,400       | \$1,400          | \$2,800           |                |
| FSEOG              | [ ]      | \$250         | \$250            | \$500             |                |
| FWS                | [ ]      | \$500         | \$500            | \$1,000           |                |
| TOTAL AWARD        |          |               |                  | \$11,850          |                |

You do not need to return this letter if you accept the conditions of the award. If you wish to decline any of the awards, check the box next to the award, sign below, and return this agreement to the address listed above. If you decide not to attend, your written notification to us voids this award.

## ENTRANCE COUNSELING

### *Entrance counseling for first-time borrowers*

Loan counseling is particularly important at colleges and universities because new students often have little or no experience with repayment and managing debt.

First-time student borrowers are required to complete Direct Loan Entrance Counseling prior to receiving the first disbursement of a Direct Loan. However, a borrower who is receiving his or her first Direct Loan is not required to complete entrance counseling if he or she has previously received the same type of loan through the Federal Family Education Loan (FFEL) Program.

#### **Direct Loan counseling materials**

Direct Loan schools can order counseling materials, such as the *Direct Loan Entrance Counseling Guide* and *Direct Loan Exit Counseling Guide*, from the FSA PUBS website at [www.fsapubs.org](http://www.fsapubs.org)



### Contents of entrance counseling

The online counseling presentation and the Direct Loan Entrance Counseling Guide cover the basic elements of entrance counseling required by regulation:

- Reinforce the importance of repayment.
- Stress that repayment is required, regardless of educational outcome or subsequent employability.
- Describe the likely consequences of default.
- Explain the use of the Master Promissory Note.
- Explain interest and capitalization.
- Provide sample monthly repayment amounts.
- Provide information about NSLDS.
- Stress the importance of notifying the school and lender of withdrawal or other change in status.

A school may choose to provide entrance counseling information to its student borrowers by other means, such as

- ♦ in-person counseling sessions,
- ♦ written materials, such as the *Direct Loan Entrance Counseling Guide* (see sidebar on previous page for ordering information), with a page that the borrower signs and returns to the school, **or**
- ♦ other online counseling products or interactive electronic means.

As a reminder, if a school uses one of these other options, the school must ensure that the counseling meets all entrance counseling requirements, and document that the student completed the counseling. A school can indicate that a student has completed entrance counseling by sending in a “true” indicator in the entrance counseling tag in the student’s COD common record.

As a part of counseling, the student must receive sample monthly repayment amounts for different levels of indebtedness. Sample repayment tables are provided as a part of the online counseling presentation, and are printed in the back of the Entrance Counseling Guide provided by the Direct Loan Program.

Your school must also ensure that someone with expertise in the FSA programs is reasonably available shortly after the counseling to answer borrowers’ questions about those programs.



### Note to Schools About URL Replacement:

A URL that allows a borrower to open directly to the new Complete Counseling page is provided in the “Loan Counseling Access Information for Borrowers.” The new URL applies to Entrance Counseling, Financial Awareness Counseling, and Exit Counseling and must replace previous URLs that are included on school websites and in school materials for the purpose of directing borrowers to counseling modules.

A borrower who is signed in to **StudentLoans.gov** when he or she completes any of the three loan counseling modules will select the schools that the borrower wishes to receive information about the borrower’s counseling results. The list of schools presented to the borrower will include all schools associated with that borrower as reflected in the NSLDS.

A borrower who is signed in to **StudentLoans.gov** will receive a confirmation email from “donotreply@studentloans.gov” upon completion of any of the three loan counseling modules. The confirmation email will be sent to the borrower’s email address stored within **StudentLoans.gov**.

## LOAN COUNSELING ON STUDENTLOANS.GOV

**NEW**

As part of the Department’s ongoing commitment to better educate borrowers about the loans they plan to take out and the loans they have taken out, our Entrance Counseling and Exit Counseling modules include many of the interactive features of the Financial Awareness Counseling that we implemented previously. Our enhanced entrance and exit counseling modules greatly improve upon past counseling modules by providing the consumer information borrowers need to make well-informed decisions about taking out and repaying loans.

There are now three enhanced loan counseling modules available for borrower use on the **StudentLoans.gov** website. The three modules are Entrance Counseling, Financial Awareness Counseling, and Exit Counseling. Two modules—Entrance Counseling and Financial Awareness Counseling—were previously located on **StudentLoans.gov**. One module—Exit Counseling—was moved from the National Student Loan Data System (NSLDS) Student Access website to **StudentLoans.gov**.

## Loan counseling information for borrowers

A borrower can access all three loan counseling modules—Entrance Counseling, Financial Awareness Counseling, and Exit Counseling—from the Complete Counseling page on **StudentLoans.gov**. On this page, a borrower is presented with a brief explanation of each type of counseling. The explanations are designed to assist the borrower in identifying which module he or she needs to select and complete.

Enhancements to the **StudentLoans.gov** website that affect borrowers include:

- ♦ A new “Complete Counseling” link. This link replaces all individual links to Entrance Counseling, Financial Awareness Counseling, and Exit Counseling.

Note: If your school used the individual links to these counseling modules on its internal websites or materials, it will need to update them to the new “Complete Counseling” link.

- ♦ A new counseling landing page has been added. When a borrower clicks on the “Complete Counseling” link, he or she will see a new landing page where the borrower can select the loan counseling module of choice:
  - Entrance Counseling,
  - Exit Counseling, or
  - Financial Awareness Counseling.

TEACH Grant Exit Counseling continues to be available on the NSLDS Student Access website for completion by TEACH Grant recipients. A link to the TEACH Grant exit counseling (as well as other TEACH Grant-related resources) is available on the **StudentLoans.gov** home page and Complete Counseling page.

- ♦ Two new links have been added to the ‘Tools and Resources’ section.
  - 1) TEACH Grant – A series of links allow students to go to the TEACH Grant website or go to TEACH Grant Exit Counseling on the NSLDS Student Access website.
  - 2) Demo Mode – There is an option to access all three loan counseling modules—Entrance Counseling, Financial Awareness Counseling, and Exit Counseling—without signing in to **StudentLoans.gov**. This option, referred to as the “Demo” mode, is accessed via the Counseling Demo link located on the StudentLoans.gov home page under Tools and Resources.

## Loan Counseling on StudentLoans.gov

EA 3-15-2013

EA 3-25-2013

EA 4-15-2013

### Contact Information

If you have questions about the information provided in this announcement, direct your questions to our contact centers as follows:

For questions about the enhanced loan counseling modules on **StudentLoans.gov**, COD System-generated responses, and COD System reports, contact the COD School Relations Center at 1-800-848-0978 or 571-392-3737. You can also email **CODSupport@ed.gov**.

For questions about the NSLDS loan exit counseling completion reports, contact the NSLDS Customer Support Center at 1-800-999-8219. You can also email **nslds@ed.gov**.

For questions about the EDEExpress for Windows software, contact CPS/SAIG Technical Support at 1-800-330-5947 (TDD/TTY 1-800-511-5806). You can also e-mail **CPSSAIG@ed.gov**.

If a borrower who is signed in to **StudentLoans.gov** and completing one of the loan counseling modules requires technical assistance, he or she may request assistance by clicking on the Contact Us tab in the top menu bar of **StudentLoans.gov**.

The borrower can 1) complete and submit the feedback form or 2) click on Additional Information and contact the Student Loan Support Center at the phone number provided.

It is important for borrowers to understand the limitations of the “Demo” mode. If a borrower completes Entrance Counseling, Financial Awareness Counseling, or Exit Counseling without signing in, the session will not be recorded as completed and



- the borrower’s loan information will not be obtained from the NSLDS for use during the counseling session;
- the borrower will not be able to select schools to notify;
- the borrower also will not see the “Check Your Knowledge” questions that are part of a counseling module when the borrower is signed in to **StudentLoans.gov**.

To have the session recorded and notification sent to selected schools, the counseling must be completed after logging in to the website.

- ◆ Entrance Counseling now includes updated and enhanced content. It has a “look and feel” similar to Financial Awareness Counseling.
- ◆ Exit Counseling has been added to the **StudentLoans.gov** website. It has a “look and feel” similar to Financial Awareness Counseling. Borrowers will no longer complete Exit Counseling (for loans) on the NSLDS Student Access website. The NSLDS Student Access website now includes a hyperlink to **StudentLoans.gov**.
- ◆ Borrowers are able to select from a list the schools that they want to receive information about their counseling results for all loan counseling types. The list includes all schools associated with that student (based on loan information received from the NSLDS).
- ◆ Borrowers will receive a confirmation email upon completion of any of the counseling modules.
- ◆ Options for emailing, exporting, printing, and tweeting are available in all three loan counseling modules. All options are available regardless of whether the borrower is signed in to **StudentLoans.gov** or completes a module in the “Demo” mode.

### *Loan counseling access information for borrowers*

To access Entrance Counseling, Financial Awareness Counseling, and Exit Counseling, a borrower should be provided with the following URL:

**<https://studentloans.gov/myDirectLoan/counselingInstructions.action>**

The sign-in (or authentication) process for a borrower who is provided with the above URL is as follows:

1. The borrower clicks on the URL or, as an alternative, copies and pastes the URL into the borrower's browser window.
2. When the Complete Counseling page that has a "You are currently not signed in!" banner at the top opens, the borrower clicks on the green Sign In button located on the right side of the banner.

Note: If a borrower wants to complete a loan counseling module in the "Demo" mode, the borrower would not sign in when presented with this page. Instead, the borrower would click on the Start button at the bottom of the appropriate box.

3. When the **StudentLoans.gov** Sign In page opens, the borrower enters his or her Federal Student Aid PIN and other identifiers. The borrower then clicks on the Sign In button to complete the authentication process.
4. Once the borrower is signed in, the Complete Counseling page for authenticated borrowers opens. On this page, the borrower selects the module he or she wishes to complete—Entrance Counseling, Financial Awareness Counseling, or Exit Counseling—by clicking on the Start button at the bottom of the appropriate box.

A borrower is also able to access the Complete Counseling page without using the above URL. After signing in to **StudentLoans.gov**, the borrower is presented with a list of activities that can be completed on **StudentLoans.gov**. This list is located in the middle of the Welcome to **StudentLoans.gov** page. To access the loan counseling modules, the borrower simply needs to click on the Complete Counseling item at the top of the list. In addition, the Complete Counseling item is located under Counseling in the menu bar on the left side of the page.



### NSLDS reports

All existing NSLDS loan exit counseling reports remain available to inform schools that borrowers have completed loan exit counseling on **StudentLoans.gov**. More specifically, the same detailed completion results are included in the EXNSFFOP message class (this is the new “NSLDS” format) or the EXITFFOP message class (this is the legacy Direct Loan format that automatically updates the EDEExpress for Windows software when it is imported). In addition, there are other message classes for CSV and formatted reports, including the newer summary reports.

A school that chooses to do so may continue to report loan exit counseling that a borrower completes through another means (for example, an onsite school session or other website) via the NSLDS Professional Access website. Note: All borrowers who completed exit counseling via the NSLDS Student Access website prior to the March 24, 2013, implementation of exit counseling on **StudentLoans.gov** will be reflected in the NSLDS loan exit counseling reports.

## Loan counseling information for schools

### Entrance counseling—System-generated responses and school options

The COD website’s School Options Information page allows a school to select whether and how often it receives its Entrance Counseling responses. In COD/School Options a school can indicate Yes or No for Electronic Entrance Counseling Participation. For frequency, the school can select Daily or On-Demand; the default value will be Daily.

### Exit counseling—System-generated responses and school options

Borrowers can now complete Exit Counseling via the **StudentLoans.gov** website. TEACH Grant Exit Counseling will continue to be completed on the NSLDS Student Access website.

The COD System will send Exit Counseling completion results in a COD System-generated response when a student completes the Exit Counseling session on the StudentLoans.gov website. The responses will be sent in the existing counseling message class, CRECMYOP. Exit Counseling will be identified in the <CounselingType> tag with a value of “ExitCounseling.”

The COD website’s School Options Information page allows a school to select how often it receives its Exit Counseling responses. The school can select Daily or On-Demand; the default value will be determined by a school’s participation in Entrance Counseling.

- ◆ If a school participates in Entrance Counseling, the Exit Counseling response option will default to Daily.
- ◆ If a school does not participate in Entrance Counseling, the Exit Counseling response option will default to On-Demand.

### Financial awareness counseling—System-generated responses and school options

We have removed the option for a school to select if it receives its Financial Awareness Counseling responses from The COD website’s School Options Information page. However, the frequency option (Daily or On-Demand) has not changed.

### Changes to the counseling report

The Counseling Report, available via the school's COD Reporting Newsbox on the COD website, provides information about a student who completed counseling via the **StudentLoans.gov** website and selected the school to receive information about the counseling session.

The Counseling Report now contains all counseling types, including Exit Counseling. The Counseling Type Indicator values are:

S – Subsidized/Unsubsidized Entrance Counseling

P – Subsidized/Unsubsidized/PLUS Entrance Counseling

L – Financial Awareness Counseling

X – Exit Counseling

A student's information will be reflected on the report even if the school does not opt to receive system-generated responses. More detailed reports about Exit Counseling will continue to be available via the NSLDS Professional Access website. In addition, a school may continue to report counseling completed through other means (for example, an on-site school session or other website) via the NSLDS Professional Access website.

### Counseling search updates

A school can also use the Counseling Search page on the COD website to search for Exit Counseling sessions completed on the **StudentLoans.gov** website. A school can search for counseling results by Social Security number (SSN) or by date range. When search results are displayed, it will contain information for all counseling types, including TEACH Grant, as follows:

| <b>Counseling Type</b>     | <b>Doc Type</b> | <b>Award Type</b>                                  |
|----------------------------|-----------------|--|
| <b>Entrance</b>            | <b>EC</b>       | <b>DLS (Subsidized/Unsubsidized) or DLP (PLUS)</b> |
| <b>Exit</b>                | <b>EC</b>       | <b>EXT</b>   |
| <b>Financial Awareness</b> | <b>EC</b>       | <b>SLC</b>   |
| <b>TEACH Grant</b>         | <b>AC</b>       | <b>TH</b>  |

For additional information about the Exit Counseling updates, refer to Volume 2, Section 1 of the COD Technical Reference.

## Repayment Plan Information

At the end of the Exit Counseling module, a borrower is provided with preliminary repayment plan eligibility information and estimated repayment amounts. The preliminary information is based on the borrower's loan information in the NSLDS and offers the borrower the opportunity to select the repayment plan he or she prefers.

In the upcoming months, repayment plan preference information acquired during Exit Counseling sessions completed in **StudentLoans.gov** will be made available to the borrower's federal loan servicer to facilitate actual repayment plan selection by the borrower prior to the end of the six-month grace period.

We plan to provide the repayment plan preference information to federal loan servicers in June 2013. At that same time, we plan to provide repayment plan preference information to Federal Family Education Loan (FFEL) Program lenders, lender servicers, and guaranty agencies through updated NSLDS loan exit counseling completion reports.

We will post detailed information about the provision of repayment plan preference information to these entities in forthcoming communications on the IFAP and Financial Partners Portal websites. Note: We do not plan to modify the school versions of the NSLDS loan exit counseling completion reports to include the repayment plan preference information.

We plan to implement Spanish versions of all three modules later this year. We will inform the community of the availability of the Spanish versions in a forthcoming Electronic Announcement on the IFAP website.

## Repayment estimator

A new "stand-alone" Repayment Estimator is available on the **StudentLoans.gov** website. The estimator is a tool that borrowers of William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) Program loans can use to receive preliminary repayment plan eligibility information and to estimate repayment amounts across all plans for which a borrower appears to be eligible. The estimator's outputs will be based on loan information within the National Student Loan Data System (NSLDS), loan information entered by the borrower if there are other loans he or she wants considered, and/or four pieces of information entered by the borrower if he or she wants income-driven repayment plan eligibility information and estimates provided.



## Documenting completion of entrance counseling

Regardless of the counseling methods your school uses, you must be sure to document that the student participated in and completed entrance and exit counseling.

If a student completes the online counseling session at **StudentLoans.gov** and indicates that your school should receive the results, the COD System will include the student's counseling results in the next acknowledgment file it sends to your school's SAIG mailbox. (A borrower may select up to three schools.) Counseling completion data is collected from the **StudentLoans.gov** site several times a day—depending on the timing, an acknowledgment file could contain information for a single student or multiple students.

Your software system may have the capability to import the counseling acknowledgments. The software may also have an option that you can set to require a completed Entrance Interview Date before a Direct Loan record can be saved with *actual* disbursement data (*DRI=True*). (In EDEExpress, this option only affects loan records where the student's grade level is 0 or 1.) Bear in mind that you would have to enter an Entrance Interview Date or turn off this setting if you know that a student has received entrance counseling through other means, such as in-person counseling.

A school can also use the Counseling Search page on the COD website to search for counseling sessions completed on the StudentLoans.gov website. A school can search for counseling results for an individual student by Social Security number (SSN) or by date range.

A school can also look for counseling results by using the Batch Search function on the COD website (entering school code and then a date range of up to 60 days). This will produce a list of batches processed by COD within that date range; batches labeled "EC" with an Award Type of "DLS" or "DLP" contain entrance counseling acknowledgments. An Award Type of "DLS" indicates entrance counseling completed for Direct Unsubsidized and Direct Subsidized Loans. An Award Type of "DLP" indicates entrance counseling completed for Direct PLUS Loans. As noted above, a particular batch could contain counseling acknowledgments for one student or multiple students.

## Reinforcing the messages in entrance counseling

Even if you rely on online counseling for most of your students, you may wish to reinforce these points through other communications with your students.

### Tracking counseling acknowledgments

Acknowledgments sent by the COD system for counseling sessions completed on the StudentLoans.gov website are coded as Document type "EC" and message class CRECMYOP (Common Record Entrance Counseling).

When a CRECMYOP file is imported into EDEExpress (Release 4.0 and later), it will populate the Loan Entrance Interview Date field in the student's record.

### Counseling Reports in EDEExpress

You can run a report in EDEExpress to retrieve records that have no reported "Entrance Interview Date."

\* Pre-formatted reports are not available at this time, but are being considered as future enhancements.

### Counseling student PLUS borrowers

For more information on the requirements for student PLUS borrowers, see 34 CFR 685.304.

### Preparing your own counseling materials

Default prevention sources are available on the Default Prevention at [www.ifap.ed.gov/DefaultPreventionResourceInfo/index.html](http://www.ifap.ed.gov/DefaultPreventionResourceInfo/index.html).

**DefaultPreventionResourceInfo/index.html.**

The Direct Loan regulations (34 CFR 685.304(a)(8)) describe how a school may adopt alternative approaches as a part of its quality assurance plan.

### Disclosure Statement Print Code

This data element indicates whether the school or COD sends the Disclosure Statement.

- ▶ Y—COD prints and sends to borrower
- ▶ R—COD reprint
- ▶ S—School prints and sends to borrower

### When COD sends a combined Sub/Unsub disclosure statement

Even if loan origination records for a student's Direct Subsidized Loan and Direct Unsubsidized Loan arrive in COD on different days, COD sends a single disclosure statement if –

- ▶ both loans have the same first anticipated disbursement date; and
- ▶ both loan origination records were processed earlier than 30 calendar days before the first anticipated disbursement date for the loans.

## THE DISCLOSURE STATEMENT

The Disclosure Statement provides the borrower with important loan-specific information, such as the anticipated loan disbursement amounts, the anticipated loan disbursement dates, and the amount of the borrower's loan fee. It must be provided to the borrower before or at the time of the first disbursement of a Direct Loan.

The COD System prints and mails a Disclosure Statement to the borrower's permanent address unless—

- ♦ your school has notified COD School Relations that your school will provide Disclosure Statements for *all* of its borrowers, or
- ♦ you have entered "S" as the Disclosure Statement Print Code in the origination record for that specific loan.

The Disclosure Statement is usually printed only once for each loan, seven days before the first anticipated disbursement date, as reported by the school. If the loan origination record arrives at COD less than 7 days prior to the first disbursement and you haven't indicated that you've printed/provided the disclosure statement, COD will generate and send the disclosure statement immediately. (For a PLUS Loan, COD will not send the disclosure statement until it has received an approved credit decision.) Depending on when the loans were originated, the student's Disclosure Statement may include information for both Direct Subsidized and Direct Unsubsidized Loans.

The COD system does not automatically reprint Disclosure Statements when changes to the Award Amount, Disbursement Dates, or Disbursement Amounts are received. However, you may request that a new disclosure be sent to the student by entering "R" as the Disclosure Statement Print Code when you are submitting the award changes.

### *School option to provide disclosure statements*

If your school chooses to provide disclosure statements to its borrowers, it must also provide a Plain Language Disclosure to the borrower for any subsequent loans made on a multiyear promissory note.

While the Disclosure Statement provides specific loan amounts and disbursement dates, the Plain Language Disclosure is a general summary of the terms and conditions of the loan. Essentially, the Plain Language Disclosure serves the same purpose as the Statement of Borrower's Rights and Responsibilities that is provided with the original MPN.

The school must send the Disclosure and Plain Language Disclosure within the required timeframe and before it first disburses Direct Loan funds for a new loan period.

#### **Disclosure statements for more than one school**

If a student borrower applies to more than one school, each school might submit a loan origination record to the COD system. As a result, the borrower could receive disclosure statements for loans at different schools.

The disclosure statement is not a promissory note, and it does not require a borrower's signature. Because of this, a borrower should focus only on the disclosure statement from the school he or she plans to attend and disregard disclosure statements from other schools.

#### **Borrower's right to cancel or change the loan amount**

The Disclosure Statement is the borrower's second opportunity (the school's initial award offer is the first) to review the loan award and either decline the loan or request a lower amount.

A school must also notify the student or parent in writing when FSA loan funds are being credited to a student's account and honor any timely request by the borrower to reduce or cancel the loan. (See Volume 5.)

## Sample Disclosure Statement

# Direct Loans

William D. Ford Federal Direct Loan Program

U.S. Department of Education  
P.O. Box 9003  
Niagara Falls, NY 14302-9003

## Disclosure Statement

William D. Ford Federal Direct Loan Program

Direct Subsidized Loan  
Direct Unsubsidized Loan

## Borrower Information

## 1. Name and Address

XXXXXX

Last Name, First Name Middle Initial

Street Address

City, St Zip

## 2. Date of Disclosure Statement

mm/dd/yyyy

## 3. Area Code/Telephone Number

## School Information

## 4. School Name and Address

University Of Kansas

University Of Kansas

Arlington, VA 12345

## 5. School Code/Branch

GXXXXX

## Loan Information

## 6. Loan Identification Number(s)

XXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXX

## 7. Loan Period(s)

mm/dd/yyyy - mm/dd/yyyy

mm/dd/yyyy - mm/dd/yyyy

## 8. Loan Fee %

0.000%

0.000%

9. Information about the loan(s) that your school plans to disburse (pay out) follows. This information is explained in detail on the back. The actual disbursement dates and amounts may be different than the dates and amounts shown below. The school and your servicer will notify you of the actual disbursement dates and amounts.

| Direct Subsidized Loan | Gross Loan Amount | - Loan Fee Amount | + Interest Rebate Amount | = Net Loan Amount |
|------------------------|-------------------|-------------------|--------------------------|-------------------|
|                        | \$0.00            | \$0.00            | \$0.00                   | \$0.00            |

Your school plans to disburse the Net Loan Amount as follows:

| Date | Net Disbursement Amount | Date | Net Disbursement Amount |
|------|-------------------------|------|-------------------------|
|------|-------------------------|------|-------------------------|

| Direct Unsubsidized Loan | Gross Loan Amount | - Loan Fee Amount | + Interest Rebate Amount | = Net Loan Amount |
|--------------------------|-------------------|-------------------|--------------------------|-------------------|
|                          | \$0.00            | \$0.00            | \$0.00                   | \$0.00            |

Your school plans to disburse the Net Loan Amount as follows:

| Date | Net Disbursement Amount | Date | Net Disbursement Amount |
|------|-------------------------|------|-------------------------|
|------|-------------------------|------|-------------------------|

If there are further disbursements to be made on the loan(s) the school will inform you.

## NOTIFICATION OF DISBURSEMENT

In addition to the disclosure statement for the loan, the borrower must receive a notice of each disbursement. Since this is typically a function of the business office at the school, we've described this notification in *Volume 5*. As discussed in that volume, this notice gives the borrower another opportunity to cancel the loan within prescribed timeframes.

### Sample Notification Format

Dear Steve R. Vaughan,

The following loans were applied to your student account [68075] on January 10, 2009:

Federal Direct Subsidized Loan \$1,730.00  
Federal Direct Unsubsidized Loan \$2,210.00

Please note that the amounts listed above reflect the NET amount of the loan, which is the amount that is paid to your account. The net amount is the amount you borrowed less any applicable loan fee. You can find more information about loan fees on the Direct Loan website: [www.direct.ed.gov](http://www.direct.ed.gov)

You have a right as a borrower to cancel all or part of these loans within 14 days of receiving this letter. If you do wish to cancel any part of the loan, please notify Financial Aid Services and pay any outstanding balance to the Business Office immediately. If you accept the loans listed above, no further action is necessary on your part.

If you have any questions or concerns about your loan, please contact us at XXX-XXX-XXXX.

Sincerely,

Director,

Financial Aid Services

**Exit counseling requirements**

Exit counseling must:

- Reinforce the importance of repayment
- Describe the consequences of default.
- Explain the use of the Master Promissory Note.
- Stress that repayment is required, regardless of educational outcome or subsequent employability.
- Provide sample monthly repayment amounts.
- Review the options for loan repayment.
- Discuss debt management strategies.
- Discuss the availability of information on NSLDS and the availability of the FSA Ombudsman's office.
- Ensure that borrowers understand their rights and responsibilities.

**Reminders for exiting students**

► Stress the importance of remaining in contact with the loan servicer. Be sure the student has the servicer's Web address and contact numbers. Remind students that they can use the servicer's website to review repayment schedules, select a repayment plan, and update name and address information.

► Borrowers who are having difficulty in repaying their loans may be uncomfortable with contacting the servicer directly, so you may also wish to provide contact information for your office. Your office can serve as a trusted advisor on options such as forbearance and deferment.

► Make sure that the student is using all of the resources available at your school for career planning and job location. In addition, you may be able to recommend other resources for debt management and budgeting that are appropriate for the career expectations and family characteristics of your graduates.

**Borrower contacts with servicer**

Borrowers can view their loan information and update their account at the servicer's website.

A borrower who is having trouble making payments should be urged to contact the servicer for his or her loan.

Your school can suggest that its students visit the Direct Loan website ([www.direct.ed.gov](http://www.direct.ed.gov)) for contact information for all servicers.

**EXIT COUNSELING**

A student who has a Direct Loan must receive exit counseling when graduating or otherwise leaving the educational program. This requirement includes students who drop below half-time enrollment in a program, as well as graduate and professional students who have Direct PLUS Loans.

Your school is responsible for ensuring that a student has completed the exit counseling process. Exit counseling must be in person, by audiovisual presentation, or by interactive electronic means. As with entrance counseling, exit counseling does not have to be provided directly by your school, and a school can choose several ways to meet this requirement. In every case, the school must take reasonable steps to ensure that a borrower receives counseling materials and participates in and completes exit counseling.

Online exit counseling is moving to [StudentLoans.gov](http://StudentLoans.gov) and is modeled after *Financial Awareness Counseling* on [StudentLoans.gov](http://StudentLoans.gov). The new online exit counseling includes key features from *Financial Awareness Counseling*, such as tools to develop a budget for in-school expenses and estimate payments based on a selected repayment plan. Schools will still obtain exit counseling reports on NSLDS and report exit counseling completed by other means on NSLDS.

A school must ensure that an individual with expertise in the FSA program is available shortly after the counseling to answer the student borrower's questions.

**Important**

Exit Counseling has been added to the [StudentLoans.gov](http://StudentLoans.gov) website. It has a "look and feel" similar to *Financial Awareness Counseling*. Borrowers will no longer complete Exit Counseling (for loans) on the NSLDS Student Access website. The NSLDS Student Access website now includes a hyperlink to [StudentLoans.gov](http://StudentLoans.gov). See the discussion under Loan counseling on [StudentLoans.gov](http://StudentLoans.gov) earlier in this chapter.

The Department strongly encourages schools to send borrowers who complete exit counseling online a personal letter from the school that explains the borrowers obligation to repay his or her loan and a copy of the *Exit Counseling Guide for Federal Student Loan Borrowers* your school can obtain at [FSApubs.org](http://FSApubs.org).



## Collecting contact information

As a part of exit counseling, the student must provide current information concerning name, address, Social Security number, references, and driver's license number and state of issuance, as well as the student borrower's expected permanent address, the address of the student borrower's next of kin, and the name and address of the student borrower's expected employer (if known).

If the student completes exit counseling at the school, rather than online, the school must ensure that this personal and contact information is submitted to the student's loan servicer within 60 days after the student provides the information.

This requirement to provide contact information to the loan servicer can be satisfied by uploading the information to NSLDS rather than sending it directly to the respective servicers. This enables your school to maintain all exit counseling data in one central location and provides comprehensive information to schools, lenders, and servicers who use NSLDS. To use the upload feature, select the Enroll Tab on the NSLDS Professional Access website and go to the new Exit Counseling Submittal page. The Excel spreadsheet uploaded by the school must be in Microsoft Office 2003 (or earlier) format.

## Documenting completion of exit counseling

You must document that the student has completed exit counseling. Be sure to retain these reports for at least three years after the end of the last award year that the student attended your school.

If a student completes the online counseling session at **StudentLoans.gov** and selects your school to receive notification, the COD System will include the student's counseling results in the next acknowledgement file it sends to your school's SAIG mailbox. The responses for Exit Counseling will be sent in the same message class as Entrance Counseling (CRECMYOP). Exit Counseling will be identified in the <CounselingType> tag with a value of "ExitCounseling." A school can use the Counseling Search and Batch Search features on COD website to search for counseling results by date range or Social Security Number. Batch search results labeled "EC" with an Award Type of "EXT" contain exit counseling acknowledgements.

Detailed Exit Counseling Completion Results reports are available on NSLDS. You may request reports by date range or look up an individual student's record (see sidebar). You may request to automatically receive regular reports on a daily, weekly, monthly, or quarterly delivery schedule. Reports are available in comma-delimited, fixed-length, or preformatted report format.

### Exit counseling reports

You can use the NSLDS Professionals page site to request a list of all students who have completed exit counseling online and listed your school. Use the **Report** tab and select **EXTC01 - Exit Counseling Completion Results**.

- ▶ Ad hoc reports are sent to a school's SAIG Mailbox as **AHSLDEOP** (Comma delimited and standard fixed-length text files) or **AHSLDSOP** (Preformatted).
  - ▶ Regular reports will be made available later with the new classes **EXITFFOP** (Fixed-length), **EXITCMOP** (Comma-delimited), **EXITFMOP** (Preformatted).
- You may also view counseling information for an individual student by looking up his or her record on NSLDS. Go to the **Aid** tab, locate the student, and view the **Exit Counseling History**. This is especially useful if you believe there may be a record of the student receiving exit counseling at another school.



## Financial Awareness Counseling

**StudentLoans.gov** offers *Financial Awareness Counseling* to educate students on the basics of financial management and managing federal student loan debt. *Financial Awareness Counseling* provides dynamic tools to help the student develop a budget for in-school expenses and estimate federal student loan payments when leaving school. When a student is signed on at **StudentLoans.gov**, *Financial Awareness Counseling* shows a student his or her current federal student loan debt.

**Important:** Schools may not require Financial Awareness Counseling as a condition for receiving federal student aid. While Financial Awareness Counseling contains some of the same information in Entrance and Exit Counseling, it does not meet the regulatory requirements for Entrance or Exit Counseling.

If a student completes Financial Awareness Counseling and selects your school to receive notification, the COD System will include the student's counseling results in the next acknowledgement file it sends to your school's SAIG mailbox. The responses for Financial Awareness Counseling will be sent in the same message class as Entrance Counseling (CRECMYOP). Financial Awareness Counseling will be identified in the <CounselingType> tag with a value of "StudentLoanCounseling." A school can use the Counseling Search and Batch Search features on the COD Website to search for counseling results by date range or Social Security number. Batch search results labeled "EC" with and Award Type of "SLC" contain financial awareness counseling acknowledgements.

### The school's role in consolidating a Perkins Loan

When a borrower wants to include a Perkins Loan in a consolidation, a verification certificate is mailed to your school by the loan servicer for completion. Verification certificates should be completed and returned to the servicer within 10 days. The borrower's loans cannot be consolidated until the verification certificate is properly completed and returned.

### Loan consolidation information

For more information about how your school can assist borrowers with loan consolidation go to

<http://loanconsolidation.ed.gov/>

## Exit counseling for withdrawals

If a student withdraws from the educational program without notifying your school or fails to complete the exit counseling as required, you must either confirm that the student has completed online counseling or send exit counseling materials to the borrower's last known address. The materials must be mailed or emailed within 30 days after your school learns that the student has withdrawn without completing exit counseling.

Schools must document in the student's file that the materials were sent; however, if the student fails to provide the updated contact information, no further action is necessary.

## Advising students on the benefits of consolidation

Students attending programs that stretch over several years can end up with a long list of loans to repay. A graduate student might have over a dozen Subsidized, Unsubsidized, and PLUS Loans to repay by the time he or she leaves school. If some of these loans were taken out while attending schools that awarded FFEL Loans, the payments might have to be made to several different lenders.

If your graduating students have Direct Loans, or a combination of FFEL and Direct Loans, a Direct Consolidation Loan greatly simplifies repayment because the borrower only makes a single monthly payment to one lender for all of the loans that have been consolidated.

Other considerations:

- ♦ A Consolidation Loan can lower the borrower's total monthly repayment and simplify loan repayment. Because the repayment period for the Consolidation Loan is longer than most of the other repayment plans for Direct and FFEL loans, the monthly payments may be lower. (On the other hand, the total interest that is paid over the longer repayment period is usually higher)
- ♦ Consolidation may also be an option for a borrower in default, if certain conditions are met.
- ♦ Some deferments and other benefits available with the borrower's current loans (especially Perkins) may be lost through consolidation.

## ENROLLMENT STATUS REPORTING (SSCR)

All schools participating (or approved to participate) in the FSA programs must have some arrangement to report student enrollment data to the National Student Loan Data System (NSLDS) through a Roster file (formerly called the Student Status Confirmation Report or SSCR). Student enrollment information is extremely important because it is used to determine if the student is still considered in school, needs to be moved into repayment, or is eligible for an in-school deferment.

NSLDS sends Roster files electronically to the school's SAIG Mailbox, or the mailbox of the school's designated servicer. The file includes all of the students at your school who NSLDS has identified as FFEL or Direct Loan borrowers (or beneficiaries of a parent PLUS Loan). Note that it will also include students who received some or all of their FSA loans at other schools but are currently attending your school.

### Schools are required to report

- changes in the student's enrollment status,
- the effective date of the status, and
- an anticipated completion date.

### NSLDS online services

To use NSLDS online services, complete the Student Aid Internet Gateway (SAIG) Enrollment Form at [www.fsaweb enroll.ed.gov](http://www.fsaweb enroll.ed.gov).

#### Certifying a Record in NSLDS

After the school certifies a record in NSLDS, the roster will always contain the last information provided by the school. Previous certification information, which only a school can provide, will not be overridden by subsequent enrollment information provided by the loan servicer. Only the school can change the enrollment information once it has certified the record.

#### Online Enrollment Updates

Because enrollment information can be reported online, it is possible that the NSLDS website will display more recent enrollment data than that shown on the roster.

#### NSLDS Delinquency Report

In addition to reports available from the Department's servicers, NSLDS publishes a delinquency report that gathers together delinquency information for Direct Loans that were originated on or after July 1, 2010, and that are being serviced by the new servicers. This report will also include delinquency information for loans that the Department has purchased under the "PUT" and "Conduit" programs and that are being serviced by SMC, GL, AES, and Nelnet. The report is available from the report section of the NSLDS website, is refreshed weekly, and is delivered to a school via its SAIG Mailbox. Schools can find additional information about this report in NSLDS Newsletter Number 27. (Available on IFAP under "Processing Resources> NSLDS Newsletters") Direct Loan delinquency reports for loans originated on or before July 1, 2010, will continue to be available through the ACS/Direct Loan Servicing website.

### Working with DL servicers

Some of the Department's loan servicers offer a late stage default aversion strategy that your school can utilize to assist at-risk borrowers to avoid loan default. The assistance provided by the loan servicers are specific to that servicer. Schools would have to contact each servicer to find out what late stage default aversion strategies it offers. The servicers and NSLDS can make available delinquency reports that list delinquent and defaulted loan borrowers from your school to assist you in identifying which borrowers are in most need of your school's assistance.

You can access these reports and gather more information about the unique late stage delinquency intervention offered by each servicer by contacting the servicer. The link below will take you the listing of all the current servicers.

[www.ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?lsc=1](http://www.ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?lsc=1)

Changes in enrollment to less-than-half-time, graduated, or withdrawn must be reported within 30 days. However, if a Roster file is expected within 60 days, a school may provide the data on that roster file.

For schools using a servicer, please remember that your school is ultimately responsible for notifying NSLDS of student enrollment changes. For further detail on NSLDS Enrollment Reporting, see *The Federal Student Aid Handbook, Volume 1*.

## TRACKING DELINQUENT AND DEFAULTED BORROWERS

To promote loan repayment, DL schools are encouraged to notify the student's loan servicer if they receive new information about a delinquent borrower's location or employment.

To assist you with default management activities, Direct Loan servicers may offer reports that list delinquent and defaulted loan borrowers from your school. These reports typically contain each borrower's name, addresses, and phone number. Using this information, you can contact and counsel borrowers who are delinquent or who have already defaulted on their Direct Loans.

### Delinquency assistance

Direct loan borrowers who are delinquent by more than 240 days are considered in "late stage delinquency." Many students go into default simply because they don't understand their options.

We strongly recommend that schools make delinquency assistance a part of their default aversion efforts. By providing this assistance, your school can help keep borrowers from going into default, and reduce your Cohort Default Rate.

Delinquency assistance for Direct Loans is a collaborative effort—schools work with the Department's loan servicers to contact and counsel borrowers who have not been making timely payments on their loans. The school's role is not to 'fix' the delinquency, but to assist both the servicer and the borrower in having the necessary and crucial conversation about the existing delinquency. Once in direct contact, with your help, the servicer and the borrower will, most of the time, find a satisfactory resolution to the delinquent status.

Your school can choose to offer assistance in the following ways:

- ◆ Provide the servicer with more recent demographic information to better enable the servicer to contact the student.
- ◆ Make contact with the borrower and refer him or her to the servicer.
- ◆ Make contact with the borrower and counsel along with the servicer through three-way calling.
- ◆ Invite the borrower to your office and provide the counseling yourself, providing direct assistance to the student to resolve the delinquency.

### FSA and default prevention

Federal Student Aid has established a Default Prevention Team to help schools implement a program of default prevention and provide guidance in the drafting of effective Default Prevention Plans. If you would like assistance in developing or reviewing your default prevention plan, please send the team an email at:

**[defaultpreventionassistance@ed.gov](mailto:defaultpreventionassistance@ed.gov)**.

In your email, please include the name, phone number, and email address of the contact person at your school.

You can find consolidated information about delinquency and default prevention at our Default Prevention Resource Information page located at:

**[www.ifap.ed.gov/DefaultPreventionResourceInfo](http://www.ifap.ed.gov/DefaultPreventionResourceInfo)**

Additional default prevention materials is available via the Cohort Default Rate Guide at

**<http://www.ifap.ed.gov/DefaultManagement/finalcdrg.html>**